

PARTY CHOICE

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THE REAL ISSUE BETWEEN
THE PARTIES

BY

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EYRE & SPOTTISWOODE
LONDON ·

THIS BOOK, FIRST PUBLISHED IN 1948, IS PRODUCED
IN COMPLETE CONFORMITY WITH THE AUTHORIZED
ECONOMY STANDARDS AND HAS BEEN PRINTED IN
GREAT BRITAIN FOR EYRE & SPOTTISWOODE
(PUBLISHERS) LTD., 15 BEDFORD STREET, LONDON,
W.C.2, BY THE CHAPEL RIVER PRESS, ANDOVER, HANTS.

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CHAPTER 1

FUNDAMENTAL POLITICAL ISSUES

Introduction

THE motive for this book was my own ignorance. During six years in the army I did not see newspapers regularly and took little interest in politics. From Germany the differences of the political parties at the General Election seemed to be differences more of method than of aim.

When I returned I soon discovered from my friends, both Conservative and Socialist, that their political feelings were too strong to be explained so simply. At the same time it appeared that their opinions were founded more on prejudice than on reasoning. At extremes some were to be heard crusading against "the powers of evil" while others declaimed against "twenty years of Tory misrule." People who before the war scarcely gave politics a thought could now hardly be restrained from ruining interesting conversation with their trumpeting of irrelevant half-truths. If one confessed to some diffidence of opinion one was a bore, even an introvert. For my own peace of mind therefore I decided to spend my demobilisation leave in reading up politics. My intention was to study while there was still time, not immediate aftermath-of-war problems, but party principles and doctrines applicable to normal peacetime conditions. Although two years have passed since then, it does not appear that I am yet too late.

The Object of Politics

Politics, says the *Oxford Dictionary*, are the "Science and art of Government." But with what object of Government?

None but a philosopher will cavil if I say the object of government is to achieve the greatest happiness of all the people—not just of the greatest number. And of what is

happiness compounded? A varied and free life on a full stomach. Just as few can appreciate art on an empty stomach so also in that circumstance a varied and free life loses its charms. The first aim of any political party should be, and indeed it is, to achieve a high material standard for the maximum number of people—freedom from want. Hand in hand with a high material standard must go security that the standard shall not suddenly collapse through circumstances outside its owner's control. Secondly an improvement in that secure standard, while it has no upper limit, must not be incompatible with freedom of the individual to choose his work, his home, his leisure and how he shall spend his money. Why must it not? That is a question upon which every man must make up his own mind. These, however, are the decisive freedoms. Their surrender to the government would make that government so immensely powerful that a turn of the political wheel might clamp on dictatorship in an afternoon.

I have tried to put the object in its simplest terms but like all simplifications it may be open to misunderstanding. At first sight indeed my definition might appear to be unredeemably materialistic. Those who are troubled by the tendencies of the age, the pursuit of pleasure, the retreat from religion, the loss of ability to be shocked, may revolt at talk of full stomachs and increasing material standards. If so, they do me an injustice. In man, morality and materialism are inextricably mixed and an attempt to put special emphasis on one of those two constituents is to depart from reality. That the emphasis among too many people is upon materialism is certainly true. Too many people assume progress to be identical with an increase in incomes whereas reflection would tell them that it is more than anything the cultivation and enlargement of the mind. Happiness may be encouraged by comfort but does not flow from it. Happiness is rather the elation of good work well and loyally done and the sense of personal fulfilment in sustaining many different interests in life. But to assert that comfort is therefore of no

importance is to strain the argument too far. Not many moralists write from hovels and it is idle to pretend that poverty and insecurity do not incline to debase. Accordingly, in the recognition that comfort is for most people a spur to a varied and free life, its achievement is a major political problem. It will be for discussion how far governments can themselves create prosperity and how far their various methods may affect freedom; but, given that prosperity and freedom, while statesmen may give a lead, it is chiefly for the individual to seek his own variety and the salvation of his own soul.

Existing Political Primers

The political novice, having thus defined the objects of government, turns then to the writings and manifestos of the political parties to judge for himself which of them seems most likely to achieve those objects. Here is no easy choice. First, as far as I can discover, there is no one logically satisfying primer able by itself to convince an open minded person of the superior merit of any party. Secondly far too many of the books that give one at least half the story are written either for the converted or for those who are too idle to dissect the argument. The flow of comprehension is continually being obstructed by the slogans of forgotten propagandists, slogans which are the only relics of some perhaps closely reasoned treatise. One does not know. "Vested interests" the modern plagiarist cries and proves at a stroke that an interest is ignoble. "Workers" is the rallying call and all but wage-earners stand forth as drones. "Reactionary," let someone say, and all of the present is preferable to any of the past. "Property and privilege," "exploitation," "right and left" loom up from an ancient political glossary and cloud thought.

These parrot cries are shop-soiled stock-in-trade of the Socialist or Liberal Parties. They make an adequate window display for the propagandist. The Conservative window is less amply supplied with catchwords. It relies more on vague

draperies than on a straightforward display of goods. Too many books on Conservatism—and there are not very many—begin by complaining that the doctrine is hard to define. They are ready enough with aims on particular subjects but too bare of lasting principles. Expediency is a cold faith. Delving further down one comes upon “tradition” and “stability” and even “the soil and scene of England, the independence and decency and laughter of Englishmen and Englishwomen.” Surprisingly near the top one encounters “God, King and Country,” and the end of one’s labours is, as like as not, greeted by some pastoral quotation from Tennyson or Gray.

The Fundamental Issues

Dissatisfaction, then, with the existing political primers is my reason for writing this book. It examines Socialism and Conservatism. I have left out Communism because it is frankly a gospel of tyranny, hate and atheism, whatever benefits it may promise to unborn generations. Some may say Socialism is merely a halfway house to Communism. That will be for discussion. Meanwhile, since the theory of Socialism, whatever its practical consequences, acknowledges Christian, or Western, values there is a *prima facie* case for its desirability as a political system for Britain.

I have also left out Liberalism because though I understand what Liberalism was I cannot understand what Liberalism is. The Liberal leaders, it seems to me, are the English Irish. Just as many political Irishmen are still obsessed with the oppressions of Cromwell, so the Liberal leaders have preserved the prejudices of 1906, when half the present electorate had not been born. The Liberal voters—a large but steadily decreasing section of the population—vote Liberal either because they have always voted so, or because they feel that Conservatism means “property and privilege” and are yet unwilling to become Socialists.

It is, however, hard to concede that any middle way of

thinking is possible. Conservatism and Socialism stand starkly opposed on fundamental issues which demand an answer "Yea" or "Nay," an answer which must place a person in one camp or the other. Perhaps a Liberal may be explained as a believer in Conservative principles who does not believe the Conservatives will carry them out.

A Socialist considers himself opposed to a Conservative on one fundamental issue, whereas a Conservative opposes himself to a Socialist on two. Broadly speaking—particularisation comes later—a Socialist believes that the greatest material progress will be made if industry is owned by the government, who will arrange the production of what it regards as most useful as distinct from what is most profitable. As to individual rights the Socialist believes himself as good a democrat as anybody else. The Conservative not only believes that the nationalisation of enterprise will retard material progress but also that Socialism leads logically and inevitably to dictatorship, whether benevolent or continental.

There are of course many other political issues. Politics is concerned with every conceivable activity of every subject in the Kingdom because government is a matter not only of what to govern but also of what not to govern. Someone once said that the most important freedom, and therefore the least likely to be challenged, was the right to slam one's own front door. That statement might appear incontrovertible but when there are a large number of people who have the legal right to put their feet in your door, front doors become a matter for politics. In this century there has been a vast increase in the subjects, hitherto private, now become a matter for politics, a matter for government. The force which has sucked them into the sphere of government is economics. And although it is very often not the economic element in a political problem to which decisive weight should be attached it does recur more frequently than any other. In my search for political principles therefore I make no excuse for reversing the usual order of analysis and debate

first purely material issues with which nearly all other political disagreements are in some way connected. Their discussion comes logically last in order, though not in importance.

CHAPTER 2

UNEMPLOYMENT BETWEEN THE WARS

Extent of Under-Nourishment

THIS chapter is an enquiry into the "twenty years of Tory misrule." It examines the trend of incomes and the cause of unemployment between the wars. A certain amount of statistics and economic theorising is therefore necessary. For as a principal political issue is whether Capitalism or Socialism is the better economic system it is important to discover whether the unemployment up till 1939 was an inevitable part of Capitalism or whether it could have been avoided then and so avoided in the future. If it were to be found that only by Socialism can unemployment be abolished, then there will be no object in examining Capitalism further.

But vital as is the need for avoidance of unemployment—rotter of souls as well as robber of comfort—the unemployed were always numerically far smaller than the employed. First, how did the general body of people get on? Had we freedom from want at the start of the war?

Inquiries conducted by a number of independent investigators during the ten years before the war show that we had not. During that period between 15 and 20 per cent of wage-earners were unable to afford a diet calculated by a Committee of the British Medical Association as being the minimum to maintain "health and working capacity."*

*This was no austerity diet. Even for the unemployed man—who was assumed not to be burning up so much energy—it was some 600 calories in excess of the present average of 2,800 calories for the whole community, and at least 1,000 calories more than that to which people without access to canteens or restaurants are reduced. I am not, of course, suggesting that the unemployed man was able to buy that diet. The diet is what the B.M.A. considered he ought to have.

About half of this poverty was attributed to low incomes in old age, a third to unemployment and the remainder to low wages. Others have gone on to calculate that if the earnings of the poorest part of the population could somehow have been increased by about £250 millions annually at pre-war values, then everyone would have been properly fed.

Is Income Distribution Changing?

On figures such as these Socialists base a demand for a redistribution of income by penal taxes on so-called unearned income—interest and dividends from inherited property—and death duties that will extinguish an estate in three generations. They do not campaign for complete equality of incomes but for “more equality” of incomes. They assert that in spite of greatly stepped up progressive taxation and death duties up to 65 per cent* the proportion of the national income going to the poor—the rich being defined by the Socialist intellectuals as those having more than £250 a year and the “very rich” as those having more than £1,000 a year before tax†—did not increase in the twenty years between the wars. On the basis of calculations made by Mr. Colin Clark, no official figures being published until Hitler’s war, Socialist statisticians estimated that 1½ per cent of the population were receiving 23 per cent of the national income. Of this 23 per cent about two-thirds was unearned income. They arrived therefore at the conclusion that “unearned incomes are the main removable source of poverty and inequality.”

But are these figures true? They can now be checked from Treasury statistics, which were not available to Mr. Clark. The table below shows that, when taxation has been deducted, they are grossly untrue. In fact, taking all those with incomes of over £1,000 before tax, it can be seen that after tax:

*Increased in 1946 to 75 per cent.

†*The Socialist Case*, by Douglas Jay, M.P., page 32. Mr. Jay is here speaking in pre-war values.

In 1938 $1\frac{1}{4}$ per cent of the population received 12 per cent of the total.

In 1944 $2\frac{1}{2}$ per cent of the population received 9.6 per cent of the total.*

As for the contention that the share of the poor in total income did not increase between the wars, a recent Fabian Society book, *The Condition of the British People, 1911-1945*, by Mark Abrams, gives a very different picture. Mr. Abrams shows that between 1913 and 1938 real wages increased by 50 per cent while the national real income per head increased by only 20 per cent.

While other figures could be produced to show that the distribution of property has not altered to the same extent since the Kaiser's war, the following table shows that the distribution of income, the latter being the object of owning property, has altered very considerably. Providing one agrees that there should be some inequality of incomes† as the Socialists do (in Russia an executive can get up to 300 times as much as the lowest paid labourer and a subaltern a hundred times as much as a private), it is clear that the Socialist nest egg has already been blown. That is not to say that there is not a good case for taxing unearned incomes at a greater rate than earned incomes, nor for maintaining the post-war increase in death duties, but the removal of an anomaly will not make the whole world rosy.

It is a prevalent vice to judge any system by its abuses. It is fashionable to point a grasping finger at over-rich land-owners who have acquired their wealth by the accident that their ancestors owned land later to become part of some rich township. One man for instance is said to owe his wealth to a forbear's weak stomach, for which the doctor prescribed

*According to Trotsky, 11 to 12 per cent of Russian citizens before the war received 50 per cent of their national income, compared with about 20 per cent in Britain.

†Though there is little value in such a calculation, complete equality of incomes would have given everybody an income of £165 in 1938 and of £250 in 1944.

1938 (*Last full year of peace*)

Income Range (Before Tax)	Number (Thousands)	Percentage of Population	Income (Before Tax)	Income (millions) (After Tax)	Percentage of Whole (Before Tax)	Percentage of Whole (After Tax)
Under £250	*22,455	89.82	2,681	2,676	53.2	57.8
£250-£500	1,745	6.98	595	578	11.8	12.5
£500-£1,000	500	2.0	350	311	7.0	6.7
£1,000-£2,000	195	0.78	270	224	5.4	4.8
£2,000-£10,000	97	0.39	360	256	7.2	5.6
Over £10,000	8	0.03	170	84	3.4	1.8
Other private income†			605	499	12.0	10.8
Total private income	*25,000		5,031	4,628	100.0	100.0

1944 (*Last full year of war*)

Income Range (Before Tax)	Number (Thousands)	Percentage of Population	Income (Before Tax)	Income (millions) (After Tax)	Percentage of Whole (Before Tax)	Percentage of Whole (After Tax)
Under £250	*18,755	72.14	3,569	3,479	39.7	49.3
£250-£500	5,200	20.00	1,830	1,590	20.3	22.6
£500-£1,000	1,400	5.38	995	730	11.1	10.4
£1,000-£2,000	520	2.00	729	454	8.1	6.4
£2,000-£10,000	117	0.45	415	195	4.6	2.8
Over £10,000	8	0.03	155	30	1.7	0.4
Other private income†			1,301	573	14.5	8.1
Total private income	26,000		8,994	7,051	100.0	100.0

* Estimate. Total not exactly known.

† Company taxation and non-profit-making bodies.

sow's milk. A small farm was bought and a great fortune founded. While such anomalies exist, they are being rapidly reduced by taxation, and the accumulation of new fortunes has become vastly more difficult. But even if large fortunes were not on the decrease their removal would not produce a great surplus for distribution among 26 million people. The object is still to cause a material increase in the incomes of the majority.

A brief study of the table above should be enough to show the way to a solution. The war caused a great increase in the national income. In the process the incomes of approximately 24 million people earning less than £500 a year increased by about 60 per cent. Even allowing for a 38 per cent rise in the cost of living that was a fairly substantial increase. Another million people lifted their incomes above £500 a year. The increase was caused by the advance to Full Employment, aided by a slight relaxation of Trade Union practices which, providing Full Employment were normal, might be permanently and more generally conceded. It is to the goal of Full Employment in time of peace as in war, that we must direct our attention.

To the reader of 1948, sated with lectures on manpower shortages, anxiety about reaching Full Employment may seem quaint escapism. We have even gone far past it and are now wrestling with overemployment which, outside the depressed areas, is doing almost as much damage as unemployment. But once inflation has been overcome the pre-war problem is likely to reassert itself. That problem is, like the well-known shaving soap advertisement, to achieve "not too little, not too much, but just right." Exactly what "just right" should be is a contentious point. If every single able-bodied person is employed all the time there is overemployment. For, in such circumstances, there must clearly be a large number of jobs unfilled and production by other workers is held down because of their vacancy. Productivity being reduced, the general standard of living suffers. The aim to be pursued therefore is an approximation of jobs to

working population. This in practice will mean some 2 to 3 per cent unemployment but no man need remain out of work for long.

Capitalism Between the Wars

There is no sense in destroying anything unless there is something better to put in its place. How good then is Capitalism, and will Socialism be better?

First, how good is Capitalism? Is it "defunct," "decayed," and "retrogressive"? Average real wages doubled between 1800 and 1850, doubled again by 1900 but fell back slightly in 1914. After 1918 there was again a rapid rise. In the words of Mr. E. F. M. Durbin* writing in 1940, Economic Adviser to Mr. Attlee during the war, then to Dr. Dalton and now Parliamentary Secretary to Ministry of Works. "In the nineteenth century the standard of living rose steadily and quickly. In the period immediately before the war (the Kaiser's) it was stationary or declining—at any rate for the wage-earner. Since the war we have resumed a steep upward trend. Indeed there can have been few periods in the history of the British economy when the level of consumption has risen faster."

Why, then, must Capitalism be abolished? Up to the Great Depression starting in 1929 a great deal was written and talked by Socialists about workers being entitled to the full produce of their labour; workers were being treated as a commodity; profit was by its nature an evil thing; production should be for use rather than for profit. The last is still in vogue and I will return to it in Chapter 3. The others are no longer used in serious discussion. Their place has been taken by a much more concrete argument arising from the Great Depression—that Capitalism has inherent in it violent and unpredictable oscillations of trade, which may be palliated but which cannot be avoided, and which bring misery to a part of the population and insecurity to many more.

**The Politics of Democratic Socialism.*

Throughout the Great Depression economists and politicians argued its cause. Among the economists it was hard enough to secure agreement as to the sequence of economic developments which reacted on one another to produce it, let alone to explain how it might be ended, or a future depression avoided. If the economists could not agree it was not surprising that the politicians floundered. Indeed, though the Great Depression was immensely worse, there had been chronic unemployment since 1921. From that date until 1939 there were never less than one million unemployed. A large school of pessimists was to be found who wondered whether the Luddites were not right after all; whether the power of the machine to produce was not bound eventually, and especially when population was expanding less rapidly, to outrun man's power to consume. Others, with more justification but with no more understanding of the real cause of the trouble—they are still talking in these terms—said that the world had solved the problem of production but not of distribution.

Keynes Explains Unemployment

"A new era of economic theorising" about unemployment culminated with the publication in 1936 of Lord Keynes' book, *The General Theory of Employment, Interest and Money*. The importance of this work, to be recommended to the lay but not to the casual reader, lies not only in its masterly analysis but as much in the fact that its basic theory is now accepted by the majority of economists throughout the world and has been verified by statistics lately available. Let me summarise its main conclusion.

(The rest of this chapter, though I hope simply expressed, is a trifle technical. The argument, finishing on page 26, is that, for the most part, unemployment can be cured single-handed by the Chancellor of the Exchequer in his monetary and budgetary policy.)

It used to be assumed by economists that there were natural forces at work which tended always to make the

total income of the community equal to the maximum potential income, which in turn meant full employment. Moderate periodic trade recessions could still be explained by arguing that businessmen, being ignorant of each other's plans, could collectively expand production more than future demand warranted, and so necessitate a sharp temporary drop in production while demand caught up.

The exposure of this fallacy is the starting point of Lord Keynes' analysis. There is *no* tendency for total income to equal maximum potential income.

Total income is merely the reverse view of the total cost of all goods produced. Goods produced can be divided into two main classes—Consumption Goods, goods and services that man as an individual buys for himself and his family, and Producer Goods, goods that business men buy in order to produce consumption goods—cranes, railway engines, machinery, etc. (In the language of Keynes the act of buying producer goods is known as Investment. Investment, in this sense, is the creation of new wealth. The popular definition of investment as the purchase of stocks and shares is only Investment in the economic sense if it results directly in putting new money into business and not solely in transferring money from one pocket to another in exchange for a share of capital already existing.)

Assume that in a particular year the cost of production, at maximum production, is £900 millions for consumption goods and £100 millions for producer goods. At maximum production there will be full employment and the total income of all individuals will be £1,000 millions.

Individuals will try to save a proportion of their incomes. Suppose they spend £900 millions. Then the whole of consumption goods produced will have been taken up. There remains £100 millions saved but not spent. Here the businessmen step in. Seeing the tendency for all consumption goods to be bought, they judge that more producer goods will be required. They therefore borrow money with which to buy them. If they decide to buy up to the full capacity of

the producer goods industries, they will have spent £100 millions which will equal the £100 millions saved by individuals. Total income will thus continue at maximum potential income and full employment will be maintained.

Now suppose that individuals wish to save more than before. Suppose they spend only £850 millions. If not all consumption goods are being bought, proportionately much fewer producer goods will be wanted. Therefore businessmen may decide to spend only £80 millions on them. Total cost of production and with it, total income, will have been reduced to £930 millions (850 plus 80) and there will be idle resources and idle men. There is no reason why this state of affairs should not last for a long time.

To remedy this situation, either the buying of consumption goods or of producer goods must be increased. The original cause of the trouble was underspending. The community by underspending was intending to increase its savings, out of a total income of £1,000 millions, from £100 millions to £150 millions. What it achieved in fact was to reduce total income to £930 millions, and by spending £850 millions it saved only £80 millions and consumed less into the bargain. Actually the proportion of its income which the community tends to spend does not vary much for a given level of income. Therefore the starting point for a Government trying to increase employment is to encourage investment. The classic method of doing this was by lowering the rate of interest and so reducing the cost of loans to the businessman. But it was found that particularly in times of deep depression this method was not enough. While trade was still on the decline or barely steady at a low level businessmen were not thinking of making new investments, except where producer goods were worn out; their attention was directed to cutting costs so as to avoid losses on investments previously made. There was no great attraction in being able to install more efficient plant at a cheaper cost than hitherto if there seemed a likely chance that demand for its products would fall still further. For reduced cost

would then be negated by lower selling prices. True, if all producers had taken the gamble then there would have been no gamble. All of them would have spent more money and incomes would have risen more than sufficiently to make their spending worth while. But if A took the plunge how could he be sure that B and C and D would do likewise? He could not, nor did they, and the depression continued. Indeed the average businessman, in making his plans, is influenced not so much by his own isolated reasoning of what is likely to happen as by his opinion of what all the others think is going to happen.

In time too of what used to be called "Boom" but which, since there was still much unemployment, was really lesser depression, there was the same disharmony. Investment was not as much as the community tried to save. Thus all resources were never fully employed.

Above I defined investment as spending money on producer goods. But it goes further than that. Spending money on consumption goods is merely replacing money in the pocket of the producer which he himself previously spent on producing them. The money is already in circulation and by being spent is being circulated one step further. By investing, on the other hand, money which in being saved had been taken out of circulation is being added to the money stream. Investment pumps in new money. —

I have so far assumed that it is the businessman who makes all investment; but there is also the government.

The action of the government in spending money is exactly like private investment in so far as that money is money freshly put into circulation—that is, by borrowing or printing money. In so far as it spends the proceeds of taxation it is only putting freshly into circulation that part of the taxation which the individuals taxed would otherwise have saved, and so taken out of circulation.

Before the war the investments of businessmen and the state were not enough to secure maximum potential income. Thus arose the situation with which the world became

familiar—a tendency for more to be produced than people would buy and yet a significant proportion of the people lacking in some of the necessities of life.

The problem of increasing investment and so increasing employment is a monetary one. It is a problem of pumping more money into circulation. It must go on being pumped until the amount of investment is equal to the community's desire to save.

Unemployment Cures—the Coalition Solution

That more money is required is generally agreed. There are three main schools of thought as to how that money should be got into circulation. The discussion, of course, covers normal times and not the immediate post-war period while we have still to get rid of inflationary pressure.

Firstly, there is the coalition government's White Paper, *Employment Policy* (May, 1944). The chosen talisman was public works expenditure and the variance of insurance contributions. "Public Investment, both in timing and in volume, must be carefully planned to offset unavoidable fluctuations in private investment." By public investment was meant "capital expenditure on buildings, machinery, roads and other durable equipment," as opposed to "public expenditure on current services," e.g., social services, education, armaments, etc. Such public investment was to be financed by taxation but the balance might be struck over a number of years. Loans might be floated in years of incipient depression but would be repaid when business flourished once more.

The White Paper failed to grasp the nettle. It failed to recognise that in the inter-war years we experienced not booms and slumps but chronic depression, sometimes pronounced, sometimes less so, but always there. Even in the best years there was an insufficiency of demand. The White Paper plan is usually described as "filling in the troughs." It is a false conception. Even the peaks were well below the optimum, the unemployed were always with us.

The actual amount of "trough filling" which would in fact be necessary can be shown; in pre-war conditions, to be of the order of £300 millions a year, rising to £500 millions in a bad year and falling to £200 millions in a good year, or more than double the pre-war average of public works expenditure. In return for that very large expenditure there would grow up a lopsided development of the country—great development of public buildings, roads and public utilities without anything like a proportionate increase in incomes. Admittedly, after the war, there is an immense need for house building, but it is not a large enough need upon which to erect a long-term plan for abolishing unemployment, nor one whose satisfaction can be postponed. A public works programme under the White Paper Plan is of a certain size not because works to that extent are required but because it will pump a given amount of money into circulation. In so far as that applies to any year's programme, the programme is wasteful: wasteful, not in a monetary sense, but because the resources so employed could be used to produce other things which would raise the standard of living. Only if there is no less wasteful method of pumping money into circulation is such a plan justifiable.

Unemployment Cures—Beveridge's Solution

Secondly there is Lord Beveridge's plan, expressed in *Full Employment in a Free Society* (June, 1944). If the White Paper failed to grasp the nettle, Beveridge has not only grasped it but pulled up half the flower bed as well. He plans to stabilise private investment by means of a National Investment Board (a different body from the new National Investment Council) and multiply the amount of private investment by what works out to be four times. Should private enterprise be incapable of making such an increase—which it certainly would be—then industry must be taken over by the State, which presumably will then start building all kinds of capital goods already proved

uneconomic. More radical than the White Paper, he is not afraid of a mounting funded debt, adds a spice of public works and links the whole expenditure to a vast scheme of social reform.

Both the White Paper and Lord Beveridge have lost sight of their object. The object is purely the attainment and continuance of Full Employment and the achievement of that object should not be linked up with the achievement of any other object. As Professor Michael Polanyi has observed in his very clear exposition of the lessons of the Keynes analysis, *Full Employment and Free Trade* (1945), the subjects with which politics have to deal have become so many and so often interlocking that it is vital there should be no more interlocking than is unavoidable. It is not essential for Full Employment either to perpetuate "pyramid building" or to dragoon private investment. Full Employment could perfectly well be achieved together with the opposite of both. They may or may not be desirable but they can be considered quite separately from Full Employment. Lord Keynes has made it clear that employment* is a purely monetary phenomenon. Its cure, therefore, should be a monetary one, leaving all other desiderata to be judged on their own merits.

Unemployment Cures—A Monetary Solution

The third school of thought needs an introduction.

To the layman, one of the difficult things about economics is to realise that what is bad economics for the individual is often good economics for the community of individuals—the State. The individual, for instance, can scarcely save too much; the community, as we have seen, can.†

*I am leaving out of account for the moment what is called "structural unemployment," i.e. unemployment in chronically depressed areas. I deal with this in the next chapter.

†I am not suggesting that the community should ever be badgered into saving less. The Government must normally take the propensity to save as it finds it. Its business is to influence investment accordingly.

Similarly, and more drastically, spending more than one's income is bad for the individual but may not be bad for the State. The individual may go bankrupt that way. The State will only go bankrupt—suffer runaway inflation—if it allows money in circulation to increase more rapidly than goods in production. Whether the amount of money which the State spends directly is more than the amount it directly collects does not necessarily affect the solvency of the State. The Budget is, as it were, the State's personal banking account. The national income and total production are, to revert to common parlance, the State's investment banking account. It is vital to recognise this difference between the individual and the State. Most of our unemployment between the wars was due to our failure to recognise it. "Balance the Budget" was the cry of the politician because it was the instinct of the individual. That does not mean that it was an irrational cry then. The trend of trade depends as much as anything on what people in the mass expect is going to happen. Where everyone has been brought up to believe that national solvency is only to be maintained through balanced budgets and if budgets are wildly and not purposely unbalanced and if economic disaster engulfs other nations, then unbalanced budgets may call forth many of the expected danger signals of inflation.

But now that we have inflation already with us, but inflation partly held in check, and are not likely to return to normal conditions for a year or so, now is the time to re-educate ourselves as to the way to regard State finances. Only if the public sees them in the correct light, can they be manipulated in the correct manner. To repeat what I said above, inflation begins only when money in circulation increases more rapidly than goods in production. If the State overspends on personal account that amount of money overflows into investment account.* If there is

*Should the reader find this a surprising statement, I repeat a paragraph from page 16 above: "the action of the government in spending money is exactly like private investment in so far

unemployment this additional money creates additional purchasing power to satisfy which more men can be put to work. Even when Full Employment is reached more money will be needed to the extent that people try to save more than businessmen decide to invest.

The purely monetary solution of unemployment is thus simply to increase the amount of money in circulation by budget deficits; deficits to be obtained not by thinking up new ways of spending money but by remission of taxation. That does not mean that taxation could be lower than before the war, or even as low. It means that the Government should not collect as much money as it needed to spend.

The objection to this is that it would create a large cumulative interest charge on the budget. But why should the deficits be financed by borrowings having an interest charge? The bank note circulation is varied to meet public demand and no interest is payable. Similarly, a deficit would be created to meet the demand for full employment and in no sense would the government be in the position of having borrowed the resources from the community for the purpose. There is no reason, therefore, except the ingrained habit of confusing State economics with individual economics, why the concept of a debt should arise nor why a deficit should not be financed with non-interest-bearing "paper."

One way, perhaps, to help the traditionalist to accept such "unsound" finance, would be to adopt a Swedish precedent. In Sweden the budget is divided into revenue account and capital account. Revenue account is balanced but capital account may be unbalanced. From the foregoing discussion the illogicality of the practice should be clear, since the effect of a given deficit on the volume of employment

as that money is money freshly put into circulation—that is, by borrowing or printing money. In so far as it spends the proceeds of taxation it is only putting freshly into circulation that part of the taxation which individuals taxed would otherwise have saved, and so taken out of circulation."

will be the same however it is incurred. Yet if it helps to get the principle of deficit budgeting accepted, then it is a good practice.

Budget deficits and surpluses could be linked up to some extent with the White Paper plan for timing public works by the state of employment. I doubt whether there is very much scope in the latter plan. The 1947 economic crisis may appear to contradict me in that opinion. But it has taken the imminence of a major disaster to affect the public works programme at all. In the nature of five-year parliaments it is not to be expected that one party will refrain from initiating desirable projects knowing that, if it is defeated at the next election, the opposite party will get the credit for them. In so far, however, as desirable schemes are not thought urgent or credit-worthy they can play their part in maintaining an even high level of employment.

The Size of Deficits

How large must budget deficits be? Before the war the apparent amount of the deficit would have to have been of the order of £100—£200 millions (or between 10 and 20 per cent of budget expenditure) to secure full employment without an increase in private investment. Now because extended social services and defence demand permanently high taxation, thus automatically snuffing out some saving, the proportion would be less.

There is another factor tending to reduce that proportion—a factor so important that for long many economists thought it sufficient by itself to cure unemployment. It is what is known technically as open market operations. This is the purchase (or sale) of government securities by the Bank of England to increase (or decrease) the total quantity of money in the hands of the public. The money thereby created is eventually deposited by its new owners in the joint-stock banks who are then enabled to make new loans to any businessman who wants to borrow. Moreover, as the banks normally keep a cash reserve of only one pound

for every twelve pounds of outstanding loans, a purchase by the Bank of England of one pound's worth of government securities creates a twelvefold potential expansion in bank loans and consequently in investment. I say "potential" because the loans will only be made if trade prospects appear good to the businessmen. Open market operations, therefore, may not be enough by themselves to increase investment. If confidence is low, they may have no effect at all and the money created by the Bank of England merely pile up unused in private accounts at the joint-stock banks.

A budget deficit—being the difference between government expenditure and income—is money actually spent and forced into circulation. And, being spent, it itself increases trade and the prospect of trade. Thus a budget deficit, besides itself creating employment, also makes open market operations effective. If private investment is increased, the increase in public investment (that is, by the government) does not have to be so great. Therefore the amount of the government deficit need not be as large as pre-war experience would seem to show.

Such a policy would, of course, be inflationary. That is to say, it would create a rapid advance towards full employment and, if it continued unchecked beyond, would cause a swift inflationary spiral of wages running a losing race with prices. But the first step is precisely what in normal times we are trying to achieve and is more accurately and politely known as reflation. The significant index is not the actual amount of money in circulation but the amount of employment. Since there would be no momentum of corresponding expenditure, the amount of reflation and the prevention of inflation can quite simply be controlled by the curtailment of the "paper" issue, or, if planning has been badly out, by creating a budget surplus. In order to produce a quick reaction such budgets would, of course, have to be cast more frequently than at yearly intervals.

Previous Experience

Has any such scheme been tried before? It has—but never in time. It was tried in 1933 by President Roosevelt, whose “pump-priming” resulted in a series of large budget deficits although they were achieved principally by vast expenditures on public works. The down-turn in trade had, however, begun back in 1929. President Hoover was slow to take action and at first even mistook the start of the depression for what financial journalists in this country are accustomed to label hopefully “a healthy shake-out.” By 1933 the economic storm had been raging ever fiercer for four years and Roosevelt inherited a legacy of enormous business losses and thirty thousand bank closings. In such circumstances the effect of new money being pumped into circulation was very much less than it would have been if created earlier.

Since business confidence, once shattered, cannot quickly be restored, much of the new money accumulated in idle bank balances or was absorbed in balancing the losses of the past years. Thus, while public investment was greatly increased, private investment remained at a very low level. Had a quarter of the money sunk in “pump-priming” in 1933 been loosed in 1929 and 1930 there is every reason to believe that the “great depression” would never have taken place.

The International Aspect

I have so far treated this problem of Full Employment as a purely British problem, unaffected by events in the outside world. British industry, however, works for export in a higher proportion than any other country. In the past it has been unfortunately true that the volume of our exports has fluctuated three or four times more in degree than the national income. We can, by monetary policy, maintain demand for home industries up to their maximum productive capacity but we cannot ourselves maintain demand in the export industries. Only foreign countries can

do that. We can, however, play a part in so far as, if home demand for home industries is kept up, the demand for imports is also kept up and the purchasing power of other nations to that extent maintained.

America is now such an economic giant that the problem of full employment in British export industries has become almost an American problem. If America and Britain together enjoy high business activity the trade of the rest of the world must be better than moderate. Can America avoid recurrent "boom and bust"? British Socialists will tell you "No," but only because they believe that all capitalist systems breed violent oscillations of trade. The cure for unemployment in America, however, is the same as for Britain. What policy America will adopt is not for discussion here. It is certain, however, that there is much more awareness of the causes of the 1929 debacle than there was at the time and a very considerable body of opinion, both inside and outside the Administration, in favour of prompt "pump-priming." Meanwhile the banking system has been reorganised and the very fact, in contrast with 1929, that there is much debate of the possibility of a business depression suggests that early action would be taken to arrest it.

Europe's return to a pre-war trade pattern, however, has already taken far longer than expected and may well continue after Britain has set her own house in order. In that case it may be argued that no amount of "financial manipulation" will protect this country from the effects of disruption abroad, which will express itself in unemployment at home. To the extent that export industries cannot quickly adapt themselves to the home market that objection is true. The objection is equally valid in respect of any economic system this country may adopt. But disruption abroad need cause no general unemployment in Britain. Its effect will be felt in a reduced trade turnover and a consequent reduction in the standard of living. That is no reason why, apart from the export industries, this situation should be allowed to prevent us working at full stretch.

The same can be said of the pre-war situation. Whatever the state of trade abroad, general unemployment is always the fault of our own government. The point is discussed further in Chapter 4.

Unemployment Can Be Cured under Capitalism

This examination of the merits of plans to increase the quantity of money in circulation has served two purposes—firstly to uncover the cause of unemployment; secondly to advocate a particular cure. Of these, the uncovering of the cause of unemployment is by far the more important. It has shown that unemployment is not inevitable in Capitalism. Unemployment has existed because of a hitherto unknown defect in the Capitalist machinery, a defect not fundamental and whose removal would not upset its working.

This, then, is the end of Round I between Capitalism and Socialism, with no points scored. Unemployment, the principal reproach to Capitalism, need be a reproach no more. Since Capitalism is admitted to have produced an almost unexampled rate of material progress, the onus of proof of desirability now turns to Socialism and an elucidation of Conservatism will be left to a later chapter.

CHAPTER 3

THE CASE FOR SOCIALISM

Origins of Socialism

EARLY Socialism had two main practical aims—redistribution of incomes and “communal ownership of the instruments of production,” i.e., nationalisation. Nationalisation used to be thought the natural bed-fellow of the redistribution of incomes since its advocacy was founded on the bleak teachings of nineteenth century economists that any guarantee of minimum wages under Capitalism would bring the economic machine to disaster. If such were the iron law of Capitalism, then Capitalism must be abolished and a new system established whereby the workers became possessed of the “full produce of their labours.”

For many years now it has been recognised that the iron law is no law at all. Real wages are dependent under any system principally upon productivity. Depressions are intensified, rather than cured, by general cuts in money wages.

The original argument for nationalisation has had therefore to be scrapped and a new one produced. It is now said that nationalisation will make industry more efficient. Accordingly nationalisation has tended to become an aim separate from redistribution of incomes. Indeed some Socialist-intellectuals appear to be satisfied with nationalisation only, while others principally desire redistribution of incomes and maintain a lukewarm adherence to nationalisation on the grounds that it is the only way to full employment.

Having already shown that Full Employment is possible under Capitalism, the case to be examined is whether Socialism would be more efficient than Capitalism.

“Ossification” in Capitalism

The Socialist contention is that Capitalism in the old sense of free enterprise and free competition has ceased to exist. In the words of Mr. Durbin in his book already quoted

above,* the Capitalist system has become "ossified, restrictionist and unjust."

By ossification is meant the freezing of the industrial structure and its increasing friction to change; without change economic expansion cannot take place. The chief friction is rigidity of the market for labour. Mr. Durbin concludes "that there can be little doubt that the increase in the average level of unemployment in Great Britain through all phases of the Trade Cycle in the last fifteen years" (between the wars) "is largely due to the rigidity of money wages." Were this to be true a most damaging argument would have been made against Capitalism. For it would have been shown that Capitalism could only produce its admitted expansion by violent oscillations in wage rates and coercion of the trade unions.

But Mr. Durbin here jumps from one proposition to another without any connecting argument. The rigidity of the market for labour arises from two factors—rigidity of wages and the difficulty of moving labour from one industry to another (commonly described as the immobility of labour). In attributing all the troubles to the rigidity of wages Mr. Durbin is attacking the nineteenth century theory of the workings of Capitalism, a theory which is to-day dead. There is surely no economist left who asserts that the way to cure a slump is to lower wages all round. On the contrary it is accepted that the effect of lowering wages is only to accentuate the slump.

It is the immobility of labour, rather than inelastic wage rates, that is a brake on economic expansion and was responsible between the wars for structural unemployment (i.e., unemployment in chronically depressed industries such as coal mining and cotton). The problem of making labour mobile is difficult. In the last century, when the population was increasing rapidly, it was easier. In those days industry either expanded or stood still. It rarely contracted. Sons, less rooted to their homes, could move to new industries, leaving

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their fathers in the old. Nowadays with a nearly stationary population some of the fathers ought—from an economic point of view—to move too. After the Kaiser's war, for instance, when South Wales coal export markets declined prodigiously, some quarter of a million coalminers should have moved to other industries. Whether such a flitting was desirable socially I will come to in a moment. But from an economic point of view the total production of the country, and accordingly the average standard of prosperity, would have been increased if the flitting had taken place. Mr. Durbin perhaps would say that had a drastic cut been possible in coalminers' wages, and therefore in the price of coal, much of the unemployment might have been cured by an increase in exports. But the unemployment alleviated in South Wales would have been matched by new unemployment in other industries, of whose products the smaller wage packets of the miners would have been able to buy less.

Immobility of labour exists. It retards economic expansion under Capitalism. It would retard economic expansion under Socialism at least to the same extent. Indeed in so far as it is against Socialistic principles to bid up for labour and so increase its mobility—the present regulations forbidding an excess of building wages in municipal housing projects over the district rate despite higher wages nearby is a case in point—it might have a greater retarding effect. The existence of the immobility of labour is not therefore an argument against Capitalism.*

*In meeting Mr. Durbin on his own ground I have perhaps exaggerated the difference between structural and general unemployment. A large part of structural unemployment has been due to general unemployment. There is little inclination to move from a chronically depressed area if there is much unemployment elsewhere. I have quoted the case of the South Wales miners. A proportion of them did move but many returned on losing jobs gained elsewhere. If, therefore, general unemployment can be conquered on the lines suggested in Chapter 2, then the immobility of labour from chronically depressed areas will be less pronounced than in the past. Similarly Mr. Durbin's argument will have even less point.

How far labour should be encouraged to move is a question of balancing the economic advantage of moving it against the human advantage of leaving it where it is.

It is believed by all parties, for instance, that it is in the national interest to retain a large and prosperous country population. Cheap foreign food unfortunately makes much of British agriculture comparatively uneconomic. Even though there is a real cost to the community it is thought worth while to bolster agriculture up by subsidies and guaranteed prices. Similarly special steps—though in the past insufficient steps—have been taken to deal with the Depressed Areas. Again there is a cost to the community but it is thought better to face it rather than to force emigration from the areas.

Capitalism No Longer Expansionary?

Looking into the future Mr. Durbin discovers another reason why the Capitalist clock, admittedly ticking away splendidly up to now, must soon run down. Leaving the wars aside the rate of saving has declined considerably since the beginning of the century.

From this a presumption is drawn that the decline will continue and the day foreseen when there will be no saving and therefore no investment. Ergo, economic expansion, the only virtue of Capitalism, will come to an end.

This is indeed a forward looking view. It is important, however, to notice whence the decline in saving comes. It has come from a more than compensating increase in taxation. Mr. Durbin makes this perfectly clear, and he points out that the previous rate of saving can only be restored by a reduction in taxation and consequently a drastic cut in government expenditure on Social Services. If a higher rate of saving is necessary to economic expansion under Capitalism, then it will be the poor who will have to pay for it. By such reasoning Mr. Durbin presents a dilemma to believers in Capitalism—if Capitalism is to survive, social services must be drastically cut; but if such cuts must be made, how is the electorate to be persuaded to like them?

The flaw in this argument is surprisingly obvious. There is no tendency towards a greater fall in savings than the increase in taxation. Therefore if the rate of taxation is not increased there is no reason to believe that the rate of savings will fall further. That the rate was not dangerously low between the wars is shown by the discussion in Chapter 2. It was the tendency of investment to lag behind saving, rather than the other way round, which retarded economic expansion.*

Restriction Under Capitalism

There is more substance in the charge of pre-war restrictionism—restriction of output, including the oft-quoted but proportionately infinitesimal number of cases of destruction of output, in order to keep up prices. There was a large measure of restriction and it was encouraged by both Socialist and Conservative Governments. But to assert, as Socialist propagandists do, that the object of restriction was to inflate capitalists' dividends at the expense of the consumer is either to display ignorance of the economic history of the "thirties" or to be caught red-handed in exploitation of an economically uneducated public. In the words of Professor A. F. Lucas, whose *Industrial Reconstruction and the Control of Competition* can fairly be stated to be impartial, "while control of output has served . . . to maintain prices at a somewhat higher level than would otherwise have been possible, there are so few cases of obviously unreasonable prices that control can, by and large, be freed from the accusation of pursuing an extortionate policy."

It used to be thought that a slump was the result of over-optimism and over-production—the "hang-over" theory of

*I surmise that such a logical gaffe springs from over-exuberance at the recent destruction of an old argument in favour of the existence of the rich. It used to be argued that the rich were economically necessary because they provided the bulk of the saving. Now with very steeply graduated taxation they have ceased to save as a group and are spending some of their capital as well.

depression. A slump of course meant a fall in prices. A fall in prices forced the most expensive producers out of business and in so doing not only reduced the average cost of production but also decreased output. Thereupon, the past seemed to teach, supply fell back to an equality with demand and a recovery set in.

But there never was such a slump as 1929. It was unprecedented both in period and in extent. There were plenty of bankruptcies and plenty of automatic cuts in production but the expected upturn of prices never came.

The Government was faced with a new situation. So large a part of industry was in difficulty that it was no longer possible to wait for a "natural revival" following the weeding-out of the inefficient. Costs were too high in relation to prices and the situation was getting worse; for prices were still falling and costs were not being reduced. They were not being reduced because a considerable proportion of industry was making insufficient profit to finance normal renewal of plant. Meanwhile the fall in demand had uncovered a large surplus of production capacity. To keep their businesses going industrialists were often prepared to cut their prices so far as to make a loss, forcing others to do the same. Thus arose the concept of "uneconomic competition," a concept which though valid in the exceptional circumstances of that time has done much to discredit the importance of competition to a progressive economy. In Chapter 7 I shall discuss competition in normal circumstances.

The Government tried to raise prices by giving encouragement to a system of output quotas, minimum price agreements and levies to write off and scrap inefficient plant. By so doing it hoped that industry would be enabled to earn enough profits to be ploughed back again for modernisation and consequent cost reduction. Once costs had been reduced output quotas could be relaxed and costs and prices could once more be in equilibrium at a high level of production.

That policy we can now see was wrong. Prices were below costs because there was a lack of demand. There was a lack

of demand because there was a lack of money in circulation. The methods of increasing the amount of money in circulation I have already examined in Chapter 2. It will be enough here to observe that restriction of output was not, and is not, a necessary part of the Capitalist system. During a time of unexampled economic malaise it was adopted by industrialists, and encouraged by successive Socialist and Conservative Governments, because the latter were lacking in the knowledge of the real cause of the slump. If a future Government is so forgetful of its responsibility as to allow another chronic depression to come upon us there will again be a restrictionist tendency, whether industry is nationalised or privately-owned.

But a depression will only arise through the failure of the Government to maintain enough money in circulation. If such a situation arises, it will still be unjust to abuse an industrialist for not involving himself in bankruptcy by selling at a loss and not putting all, instead of a few, of his labourers out of work. For, in a depression, it is not only the Capitalist who benefits from restriction, but also the majority of wage earners. Abuse should fairly be reserved for the Chancellor of the Exchequer. Assuming such a failure of governmental policy a nationalised industry might not have to resort to such a degree of restriction provided the taxpayer were to be called upon to subsidise prices. But restriction would be far easier to achieve. It could be done by a stroke of the pen; whereas, with privately-owned industry, a great deal of negotiation is required both to achieve and to maintain quota or price agreements. In any case, the cause of restriction, both of output and trade union practices, under any system would be removed if Full Employment were maintained.

The Tendency Towards Monopoly

Ossification and restriction, according to Socialist propagandists, are not the only ills from which Capitalism is suffering. Free enterprise, they say, is no longer free. There

has been a rapid decrease in the number of firms in the major industries, so it is said, and in an ever larger number of industries a monopoly is arising. Other industries, going the same way but not yet so far gone, have set up price rings which no newcomer can break. In these industries monopoly profits are made—that is to say output is restricted so that selling prices can be maintained a long way above costs.

But is there a great tendency towards monopoly? Has Free Enterprise Capitalism become Monopoly Capitalism? Through its having been often repeated one can find many people to swear it. When one asks for facts one is invited to “look at Imperial Chemical Industries” or some other very large business. But even such a Titan as Imperial Chemicals, though it may have a virtual monopoly in some of its products at home, has active competition abroad, and though it may have selling agreements in some parts of the world, they are “Pirate’s Agreements” rather than “Gentlemen’s Agreements,” since the parties would gladly cut each other’s business throats if there were any advantage in it. For a general tendency towards monopoly I can find no evidence in support. Only between one third and one quarter of the working population is engaged in firms employing more than 500 people, and the number of separate businesses—now some 250,000—has been continuously on the increase since the Kaiser’s war. While this should not be taken as proving that monopolies are being broken it does not suggest their rapid growth.

As to the degree of present concentration the most recent statistics are contained in the 1935 Census of Production. This showed that of the 249 trades into which industry was divided there were 38, or 13 per cent, in which as few as three firms were undertaking between them 70 per cent of the production.

Analysis of the same census disproves also a contention of the light-hearted on either side of the political fence—namely that all industry tends towards monopoly because maximum efficiency is only attained by the largest firms. In general the

census shows that productivity per head increases up to a certain size of firm but thereafter decreases. There is some sense in the story of the man who made a living by buying from one subsidiary in an outsize company group and selling again to another subsidiary in the same concern. The capacity of men, not machines, determines optimum size.

Socialist Monopoly

But if private monopolies do exist what is the Socialist remedy? It is not to bust them but to turn them into public monopolies. And not only that, it is to create many monopolies where, even on their own assertions, only a few existed before. Socialist theorists are fond of referring to an industry as "ripe for socialisation," though none of them has explained exactly what that means. It appears, however, from Dr. Dalton's book, *Practical Socialism for Britain* which, though published in 1935, is still the best guide to Socialist long-term policy, that an industry becomes "ripe" by being forced to combine into a sufficiently small number of outsize firms as to constitute a semi-monopoly. In other words, first create an abuse and then perpetuate it.

For a state-owned monopoly is a permanent monopoly, whereas a privately-owned monopoly has always to consider the possibility of competition. The railways for instance, after the compulsory amalgamations of 1921, may have appeared to be monopolies and were so treated by governmental regulation. Yet ten years later they had already suffered severely from the competition of the adolescent road transport industry. If anyone be so rash as to run regular air services in competition with the nationalised Civil Aviation Industry he can be sent to gaol for two years.

Socialists of course claim that what is an abuse in private hands is a blessing when it is run by the government. If monopoly profits are made they will accrue to the Exchequer and all citizens will get the benefit extracted from a few of them.

But, in respect of industries not making monopoly profits

when nationalised, that is not an argument that can be carried very far. As nationalisation spreads over the land, the effect of monopoly profits being made in an increasing number of industries would have a disastrous effect on the general price level and on our ability to sell abroad. In respect of an industry already making a monopoly profit when nationalised, the argument has no validity at all. In such a case, the act of nationalising the monopoly saddles the community in perpetuo with the cost of the previous monopoly profit and none of it accrues to the Exchequer. If an illicit gain has been wrung from the public it will already have been capitalised. If a share of £1 par value is now £10 in the market it would be no kind of justice to buy it out at £1, for the holder of the share now most likely bought it at somewhere near £10 and may indeed have got it at £15. (In any case, it would be politically unwise; for example, there were over a million railway stockholders and four-fifths of them had less than a £1,000 holding.) Thus, the first fruit of nationalisation, by giving government-guaranteed stock in exchange for equities, is to convert the equity holder into a rentier and to transfer the risk of loss from the equity holder to the taxpayer.

The obligation on the Government not to earn monopoly profits, if dismissed as unimportant by the cheaper propagandists, is taken seriously by the thinking section of the Socialist movement, but there does not appear to be any general agreement as to what the profit policy of a public monopoly should be. Mr. Durbin for instance, believes in a "planned" solution; to choose the size of plant and output at which demand, estimated at various prices, coincides with the lowest average cost. Mr. Douglas Jay, M.P., at present Economic Secretary to the Treasury with some reputation among the Socialist intelligentsia on account of his book, *The Socialist Case*, thinks that all industries which compete "more or less directly" with other industries or foreign goods can safely be told to maximise their profits. Mr. Attlee himself in his latest pronouncement com-

mits himself to no fixed policy and considers that the level of profits should be decided from time to time. No blame can be laid on him for lack of an immediate decision since the newly nationalised boards are struggling with the problem not of avoiding monopoly profits but, after a prodigious rise in costs since take-over, of making any profit at all.

Efficiency Under Monopoly

A discussion of profits is valueless except in relation to efficiency. How shall a state monopoly judge its efficiency? The removal of competitors removes the standard. If profits are high, are they due to greater efficiency or to monopoly profits? If they are low, is demand decreasing or should prices be raised or is it not possible that monopoly profits are combined with inefficiency? The example of the railways is sometimes raised in this context. After the Kaiser's war railways made modest profits until 1929, did not raise their rates and appeared reasonably efficient. In the depression their earnings fell heavily but by drastic technical reorganisation they achieved a cost reduction of £4 to £5 millions and lowered their rates at the same time. Thus in spite of lower rates they regained their profitability. If, however, they had been nationalised after the Kaiser's war, would not the monopoly have blamed the losses on the competition of road transport, and would not the taxpayer, as in two thirds of the countries which have tried railway nationalisation, have footed the bill at the same time as being forced to pay high railway fares? -

It is less clear then to a monopoly than to a competitive business when its costs are needlessly high. Similarly it is less pressing on a State monopoly, particularly since it is likely to be subject to ill-informed and partisan parliamentary criticism, to branch out into new lines in which there is considerable risk. What, for instance, would have been said about Imperial Chemicals vast hydrogenation project at Billingham if that company had been a State monopoly? Though, I believe, it has now "made good," would the

board of a State monopoly have dared sire what looked then to many competent observers to be a prodigious white elephant? It is of no use to contend that the same men who have been so successful in private enterprise can be persuaded to serve the State and to give as good service. No doubt they will try and no doubt many of them will be prepared to resign if ordered to implement policies with which they profoundly disagree. But they cannot but be sensible of the need to placate parliamentary snipers and resigned to some issues being settled on the political rather than the industrial plane. On many issues, according to the pattern of nationalisation acts already passed, responsibility lies with the Minister, and a Board, to get a decision, must deal through the Ministry Staff.

Equally on straight business issues, a monopoly Board cannot be expected to show as great an enterprise as a number of privately-owned concerns. Suppose that a new invention shows some prospect of considerable profitability but at the same time seriously affects the profitability of an existing monopoly product. Under private enterprise, one firm will exploit the invention. If it is successful, a rival firm making the old product will be hit, but the public by receiving a better or a cheaper product will have been better served. But the monopoly Board, comprising the whole industry, has as much to lose and less to win. If the new line is a failure, the loss will be the same as for the private firm. If it is a success, the profit on the new line will be balanced by the loss of income and capital on the old. What, then, is the object of taking great risks, if the industry can run along smoothly without them? There may be no impressive expansion but equally there will be no large losses to embarrass the Minister.

A tendency towards waste appears when one considers not a single public monopoly but a group of monopolies competing for the same supplies. Anyone who has worked in government departments or in the Services during the war is familiar with the almost universal practice of over-ordering,

partly in order to build up a hidden reserve and partly on the assumption that a co-ordinating body will cut all bids by a straight percentage. The few honest men who ask for what they need, and no more, are adjudged grasping when they insist that no cut be taken and are self-taught to be less honest next time. On the personal side, there is the tendency, again evident from wartime experiences, towards departmental aggrandisement and the effort by officials at all levels to increase their subordinates in order to secure promotion for themselves. The charge is harsh but the evidence is overwhelming. The officials or staff officers who have sponsored reductions in their own staffs would not, if placed end to end, reach a twentieth way down Whitehall. And the reason for all this is that in a public monopoly there is no penalty for waste. Only people who work in a department can tell exactly where waste is occurring, and it is not possible for Members of Parliament to ferret it out from the Estimates. No one can prove that the overheads are too high since there is no standard of competitive profitability to which to refer. The only standard is the past, from which the conditions of the present can too easily be shown to differ.

In short the tendency of state monopoly must be towards resistance to change, high costs and high prices.

Trade Unions Under Nationalisation

Such are the effects of nationalisation on efficiency. The cost of inefficiency falls partly on the consumer and partly on the taxpayer. How will the wage-earners in a nationalised industry stand?

The majority of wage-earners have been in favour of nationalisation, not on theoretical grounds, but on the presumption, so often voiced during the 1945 election, that "they" (the Socialists) "will give us a better deal; we shall be the masters." But already it is becoming clear that the wage-earners will be the masters no more than before. Trade Union officials are invited to join nationalised Boards but, as soon as they join, they must surrender their positions

and their responsibility to their union. Far away in London T.U.C. officials may frighten the Government into giving some support for the "closed shop" or from increasing the hours of work, but of rank-and-file entry into management there is no tendency. Blunt Sir Stafford Cripps, the most outspoken if not the most tactful of Ministers, has rubbed it in: "Workers' control of industry is not possible even if it were desirable."

Trade Unionists would perhaps be better advised if they were to recognise that there is less divergence of interest between employer and employee than there is between an industry and the rest of the community. Wages being proportionately much larger than equity profits the effect of wage increases is most frequently passed on to the consumer in higher prices. Under nationalisation, where the Government, as ultimate owner through its Boards, is concerned in the prices charged by all nationalised industries, it, unlike a single employer or group of employers, has to consider whether it could deny a wage increase in one industry if it were to grant an increase in another. If wages, and therefore prices, are raised in all industries the purchasing power of the new wage is no greater than before. On the other hand a wage increase extracted from one group of private employers has no necessary effect upon another independent group. From its own point of view therefore a particular Trade Union may hope to gain more from private enterprise than from nationalisation.

Trade Unions will find the Government a stronger negotiator than the strongest Combines. Dr. Dalton hopes that Trade Unions will find easier "their negative function of defending the interests of their members against exploitation," and that they will slide into the role of "Professional Associations concerned with maintaining a high level of qualifications and of efficient public service by their members." But Trade Unions are sectional interests just as much as employers and they are far from regarding wage negotiation as a "negative function." Unless there is to be a uniform

national wage it is difficult to see why Trade Unions in comparatively prosperous industries will not be calling for a larger share of the proceeds, although the previous owners will already have been guaranteed their share by the issue of guaranteed stock. What happens then? Under private enterprise, the existence of profits has been the sheet anchor of the Trade Union. A strike causes large losses to the industrialist and the threat of it may cause him to accept conditions he would otherwise have refused. But the Government need care little for a loss if it considers the Union demand unjustifiable. Apart from being able to brand the Trade Union as unpatriotic for striking against the State, the Government can recover the loss from the taxpayer. Nationalisation blunts the strike weapon.

The Case for Central Planning—Full Employment

The second major argument for nationalisation is that only by a large measure of it can a "planned economy" be achieved. Planning, as Dr. Dalton says, is not the same thing as Socialism. "Economic planning is the deliberate direction . . . of economic activities towards chosen ends." The chosen ends of the Socialists are firstly full employment and secondly "production for use" instead of "production for profit."

Though the Labour Party was joint sponsor of the Coalition White Paper Socialists still seem to believe that full employment can be achieved only by considerable nationalisation. Agreeing the Keynes analysis, they point to the hitherto marked fluctuations of private investment. They hope to mitigate their effects by so enlarging the "public sector" of industry that the Government can directly regulate the major part of investment. The Government, which can call upon the taxpayer to cover its losses, would certainly be in a position to decrease the fluctuations of investment in its own sector. But, as explained in Chapter 2, the problem of full employment is not so much of ironing out fluctuations in investment as of greatly increasing its amount.

There is no reason to believe that Government-owned industry will be able usefully to invest at a greater rate than prosperous privately-owned industry. Indeed, according to the calculations of Mr. Leopold Schwarzchild in his *Primer of the Coming World*, the capital investment of Russia during the five-year plans was less than during equivalent periods of development in Capitalist America, even though Russia deliberately curtailed consumption below Czarist level and was imitating Western technique instead of pioneering new industries. Change of ownership of industry will not help in increasing the average rate of investment, while manipulation of money to avoid fluctuations is a less drastic expedient than structural reorganisation of industry.

The Case for Central Planning—Production for Use

The theory of "production for use" is, in the view of Socialists, the fundamental distinction between Socialism and Capitalism. Under Capitalism, whether goods are produced or not, and in what quantities, is determined by their profitability. Under Socialism, profitability will be a secondary consideration and production programmes will be based on "the real needs of the people."

But, first of all, what is this thing called profit which in the Bible was a respectable word but which now bears the stigma of ill-gotten gain? For profit is gain. The question is whether it is automatically ill-gotten.

Profit is made up partly of salary, in so far as it is the reward to the owner of a business for the work he puts into it, and partly of interest on the money borrowed to promote the business. Thus by definition profit-seeking is a perfectly normal habit which everybody in the land pursues, in one or the other aspect, and most in both. The "idle rich" having at least ceased to be idle, all able-bodied people draw salaries or wages in some form and most of them draw interest on money invested either in business, Government securities or savings bank deposits. The only distinction between the interest-earning aspect of profits and interest

on Government-guaranteed savings is that the first are variable and the other fixed in quantity. The reason why profits are variable is that they depend on the risk of trade, and since there is a risk of loss the profit-seekers naturally hope for a larger return than where there is no risk. If a business does badly, the profits are the first item to be cut. If it does well, the profits advance more rapidly at first than wages and other costs. The profit system, therefore, is more correctly named the profit-and-loss system. It undertakes the risks and hopes to make gains thereby, but often it makes losses. There is nothing bad in profit-seeking as such unless it becomes profiteering—unless the profit-seekers are able to take some unfair advantage whereby the public has to take goods at any price and cannot turn elsewhere.

The profit-making system works through an automatic price system. The producer fixes a price which will cover his costs and give him a profit. If the consumer is willing to pay the price the profit is realised and yet more production is encouraged. If he is not willing, the price will have to be lowered, a loss may result and production will be discouraged. And so through all the range of commodities there is a continual testing of production programmes against the consumer and their continual alteration according to the result. There are thus two sides to a profit. A profit is as much a reflection of the consumer's expressed desire as of the producer's benefit. That which produces a profit the consumer wants most and the community goes about its business without the necessity of any central planning in detail.

So far we are on uncontroversial ground. The above is true and cannot be bettered, but subject to two provisos—firstly that competition is free and secondly that the prices people are prepared to pay for goods express their real needs. Socialists deny both provisos.

About competition I shall not say much here. Its freedom is certainly essential to the proper working of Capitalism. I have already discussed monopoly and restriction and I

shall have further remarks to make later on regarding their elimination. Suffice it to say for the moment that, though much requires to be done, competition before the war was not so unfree as seriously to jeopardise the smooth working of the automatic price system.

The second proviso is the kernel of the argument. It is agreed that an automatic price system, equating supply to demand, ensures that national resources of land, capital and labour are distributed in the most economical manner in terms of money. But the rich man's pound is worth much less to him than the poor man's pound. Suppose, each with his last pound, the poor man buys a pair of trousers and the rich man buys a set of books. The poor man's need for the trousers is greater than the rich man's need for the books. Yet the rich man's pound exerts the same pull at resources away from trousers production as the poor man's pound from book production. An unregulated price system promotes a "continuous misdirection of new capital. Funds flow, not in search of social advantage" (e.g., trousers) "but in search of profit" (e.g., books). In order to produce for use therefore it is proposed to manipulate the price system so as to cheapen all "necessities" at the expense of "luxuries."

At first sight there might appear to be justice in this theory, even though there were little scope in it, since the large profit-making corporations are to be found in the "essential" rather than the "luxury" markets. But reflection shows that it is only true if no individual knows what is good for him, and the Government, blessed with superior wisdom, must decide for him. For the "pull at resources" is caused by the desire of those with larger incomes to buy some goods not to be afforded by those with smaller incomes. If, therefore, the view is that by some subjective standard the pull is too great, criticism should be directed not at the price system but at the size of the larger incomes. It is illogical to agree that Man A shall earn one pound while Man B earns two, but at the same time to manipulate

still, with these larger incomes, retain their freedom to buy what they want.

Moreover, provided there is any difference in incomes at all there will still be a difference between the value to them of the richer and the poorer man's last pound and a consequential "misdirection" of new capital. Therefore one must either believe in complete equality of incomes or, except in special instances, abandon the argument. Socialists do neither.

Having considered the theory as a theory, let us see how "production for use" is to be translated into practice. Here there is a remarkable gap in Socialist literature. The last thirty years have echoed with propaganda on the subject, yet, although it must clearly turn the productive system upside-down, its implications have never been worked out in detail. The trouble appears to be that the Socialist party is made up of two elements—the intellectuals who have no experience of industry and the trade union officials who have no experience of administration. Neither element seems to realise the immensely complicated structure of an industrialised economy. Socialism has theorised at great length on Distribution but only in a cursory manner on Production.

How else can one explain the stupefyingly simplified accounts of production for use which, in Socialist thinking, pass for plans? Mr. John Strachey, for instance, in his 450-page book, *The Theory and Practice of Socialism* (1936) devotes one and a half pages to explaining how production for use will work. The first year's plan of production, he tells us, will be based on the existing output "with additions indicated by what the better-off classes do now consume. . . . All subsequent budgets will be merely corrections of the miscalculations discovered in the first. . . . The planning authority will be sure to provide, say, too many new motor cars and not enough wireless sets. . . ."

"In the following year the planning authority will

arrange for the production of more wireless sets and fewer motor cars. In order to do so it will have to turn certain productive resources (in this case metal, skilled labour, assembling plants, etc., etc.), which have been making motor cars, on to making wireless sets. Year by year there will have to be correction of this kind."

Just as simple as that. There will be no adjustments of price to stimulate demand, no adjustments of output to cheapen costs. All prices will be neatly tied to cost of production. Surplus stocks, even if they are now out-of-date, will merely be carried over. And what motor car factory can suddenly be turned over to wireless set production? What of the sub-contractors—there are over five thousand separate parts in a motor car? What of the "skilled" labour—are they to be skilled in every trade? Perhaps most expressive of the whole disquisition is the portentous "etc., etc."

The least cursory description of production for use is to be found in Mr. Jay's book already quoted. What is proposed is, by taxation, subsidies, rationing of "luxury" investment and varied rates of interest, to make the production of necessities cheaper than the production of luxuries. Here is planning with a vengeance. First, schedules have to be drawn up listing all conceivable products as necessities, luxuries or "neutrals." Then it has to be considered how far and on what terms all these goods compete with imports or can be classed as exports. The next practical step must be the granting of subsidies. No industry makes only one product. Thus will arise a host of differential subsidies. Take a simple case—chicken farming. Eggs are a necessity: boiling fowls presumably a neutral. The Ministry of Agriculture would literally have to decide the old conundrum, "Which came first—the chicken or the egg?"

Meanwhile the new industry, the little man with an idea, would have to wait upon the pleasure of Whitehall. If something is new it can scarcely be classed as a necessity,

though it may very well become one. Motor cars, for instance, were as great luxuries in 1900 as television sets are now. A new industry, unless specially taken up by a Ministry, would have to compete unfavourably for capital and labour with established industries. To its abnormal risk would be added an artificial burden. Yet it is on a sufficiency of new industries that economic progress depends.

As new investment at the "necessities" rate of interest is made the original subsidies will have to be adjusted downwards in proportion to the net amount of capital added. Similarly there must be continual revision of the categories, revisions of necessities and luxuries, revisions of export products, revisions because of new import prices. All the time, on the principle that the State must not grant a privilege without ensuring it is not abused, there must be constant supervision of all the industries involved. Socialists say that Socialism does not mean an increase in bureaucracy. One can imagine the host of orders, regulations and amendments thereto that such a plan would call forth. All industry would be drowned in a sea of paper and all enterprise strangled by uncertainty as to whether an arbitrary power was not going to alter the terms of trade overnight. Pressure groups would jostle in the corridors of Westminster.

Meanwhile if the planning authority makes a mistake the effect can be disastrous, causing a glut or an acute shortage. Mistakes, as Mr. Strachey says, are bound to be made. But since everything is planned to be used to its maximum and hence the supply of components is calculated exactly to equate with final products, a shortfall anywhere creates a bottleneck and the planner is condemned to stagger for ever from one crisis to the next. Under Capitalism the mistakes by one producer on one side are apt to be balanced by the mistakes of other producers on the opposite side.

Without being paraded as a peace-winning factor, "social priorities" in special instances have been recognised for many years. Before the war subsidies were given for the cheaper houses, production of some foods was assisted,

certain luxuries were heavily taxed. During the war food was very much more heavily subsidised to stop a rapid rise in the cost of living which might have resulted in open inflation. There is a good case for the continuance of some few such measures in normal times but an attempt to extend bounties to all the necessities and sanctions to all the luxuries of the day can only result in increased fear of taking risks and less economic progress. Though the share of the lowest wage-earners may be larger the cake will be smaller.

Controls

This discussion of "production for use" shows clearly the disregard of Socialism for business confidence. I say "disregard" because none of the Socialist treatises pays any attention whatever to the effect of their interferences on the people who have to do the work. They simply fail to understand that perpetual flux and trade expansion cannot coexist. It is not that they mean, after an initial bouleversement, to be forever tinkering with everybody's business; it is that their system will not permit them to stop it.

The present system of controls is far simpler than that required by thoroughgoing production for use. Yet the growth even of those controls seems to cause Ministers surprise. There is no reason to doubt their sincerity when they assert that they do not enjoy increasing them. Doubt can be reserved for their understanding of the industrial complex. Once the game of controls has begun, once the aim has been adopted of trying to achieve prosperity by physical, quantitative, detailed, prohibitory controls, each one of which yet never quite achieves its limited object, instead of monetary controls which automatically put a pint into a pint pot, then those physical controls must breed like bacteria and their removal becomes progressively more difficult. For controls themselves create shortages. Take, for instance, the clothes rationing system. Effective demand is kept at a low level by the coupon issue. The public, having surplus money to spend, spends it on uncontrolled goods.

It appears to register, for instance, an extraordinary demand for betting. Woman-power which would otherwise have been drawn into the clothing industry and so have produced more plentiful and cheaper clothing is attracted instead into betting. Thus rationing through bypassing the price system maintains the shortage and perpetuates itself. Now that there are so many controls, it has become a matter of some delicacy to reduce them. "What controls would you remove?"—their organised opponents chant at Conservative parliamentary candidates. It is not the mass of controls, but a progression of them, which must be set in hand for removal; for resources will not move back into production of decontrolled commodities until hitherto pent-up demand can make itself evident, nor move away from mushroom industries like pool-betting until demand has been drawn off. Moreover, it is not the controls at all that must first be removed, but the profligate finance that exaggerates demand and so promotes artificial scarcity. If the Government at the present time were to stifle inflation half the present 25,000 controls could be dispensed with immediately. But, so long as Socialists interpret the need for a political programme as the enumeration of all seemingly desirable things, and good faith as the necessity for their immediate enactment, irrespective of circumstances, so long is inflation bound to continue and controls bound to multiply.

Similarly, with production for use, there can be no end to the accumulation of controls and no scope for the businessman to branch out for himself. Socialism sneers at the businessman and will not allow him a part in the planning. Yet every businessman has to plan to run his business. His planning data are his estimates of the future. He must therefore have some assurance that conditions will not change too drastically while his plans mature. But it is precisely this assurance that the Socialists will not give him. The Socialists will not even commit themselves to principles upon which the decisions to nationalise will be taken—

other than inefficiency, which is established by simple ministerial declaration rather than by enquiry. "Socialism," says Dr. Dalton, "is a quantitative thing. It is a question not of all or nothing, but of less or more."

Summary

For all these economic reasons, I conclude that Socialism is inferior to Capitalism. Socialism was in origin a doctrine of statics—an idea merely to share out differently a cake of given size, without any clear ideas on cake-making. "Fair shares for all" is a splendid slogan, but a vital pre-consideration is "fair shares of what." Let us never forget that fair shares of poverty was our original state.

As an afterthought an alleged greater efficiency has been put forward as an argument for Socialism. The speeches of Ministers introducing nationalising Bills have shown what little thinking has been given to the development of industries once they have been taken over.* Under

*It may be tantamount to shooting a sitting bird to quote Mr. Shinwell but since he was the minister responsible, his observation on the Coal Nationalisation Bill should be noted:—"We are about to take over the mining industry. It is not so easy as it looks. I have been talking about nationalisation for forty years but the implications of the transfer of property have never occurred to me."

House of Commons, Nov. 22, 1945.

Eighteen months after the mines had been taken over he was yet further disillusioned: "Socialism demands nationalisation of key industries and services, because if we can secure control of the administration we can readjust society to the advantage of the common people. That was our idea but there was far too little detailed preparation in the formulation of schemes of nationalisation and we found ourselves with legislation that had to be completed without the necessary blueprints on which we could have proceeded much more expeditiously in the right direction. When the mining industry was nationalised—this had been on the Labour party programme for fifty years—we thought we knew all about it. The fact of the matter was we did not. We found ourselves up against extraordinary difficulties in preparing legislation and now that the administration is being run

Capitalism "there can have been few periods in the history of the British economy when the level of consumption has risen faster."* The defect of Capitalism has been not the extent of inequality of incomes, which can be modified at will by taxation under any economic system short of Early Christian Communism, but under-employment and its attendant insecurity. I have tried to show that this defect is not inherent in Capitalism and that, by virtue of our new-found knowledge, under-employment can be abolished. The argument for Socialism thereby loses its main plank.

Socialism as a practical doctrine disregards two fundamentals. Firstly by tending to concentrate all power at the centre it under-estimates the extreme complexity of a highly-developed economic system, the multitude of small decisions taken every day by multitudes of small men. These decisions together gradually manifest themselves in the economic development of the country and its adjustment to changing demand and opportunity. What Socialists complain about is the inhumanity of the automatism of the market, the failure to take into account the different degrees of need of people tendering the same unit of money. But, even if there were any substance in the complaint, it is beyond the power of any central authority to provide a substitute for automatism, for that would mean not only that the Government has itself to make all the decisions now made by all the producers and all the distributors but also all the consumers. If confirmation is required, it is only necessary to read the Government's own *Economic Survey for 1947* (Cmd. 7046):

by a public board still more difficulties are being exposed. . . . I took all possible safeguards to get democracy into the industry. I stressed the importance of consultation between management and workers. Unfortunately it has not worked out too well."

Speech to Co-operative Congress in Edinburgh.
May 2, 1948.

*Mr. Durbin, *The Politics of Democratic Socialism*, quoted at greater length on page 12.

"This control apparatus, taken as a whole, can have a substantial effect upon the course of the national economy. But the controls cannot by themselves bring about very rapid changes or make very fine adjustments in the economic structure. To do this, they would have to be much more detailed in their application and more drastic in their scope. Indeed the task of directing by democratic methods an economic system as large and complex as ours is far beyond the power of any Governmental machine working by itself, no matter how efficient it may be."

Nevertheless, this is the impossible task set by "production for use." And even were the task possible, it would be presumptuous to expect the central planners to have the knowledge necessary to perform it. As the London Chamber of Commerce reported to the Board of Trade on the Industrial Reorganisation Bill:

"The multiplication of Committees superimposed on industry, consisting largely of persons without intimate knowledge of the industry which they are to instruct and advise, or without any practical experience in the administration of that industry, is not calculated to assist in the recovery of this country's industrial position."

The Government must to a large extent regulate the conditions of the market but it cannot run the market itself. Wartime experience is not a useful parallel. Planning of consumption goods production was conducted on an extremely rough and ready basis, supplies of raw materials being allocated usually on a percentage of pre-war use. There was no attempt by the Government to make those fine adjustments, sensitive to demand, which are required when nearly all production is for consumption. The wartime system was wasteful but it was justified because speed was more vital than economy.

There is no question therefore of continuing into peace a system that has worked in war. In war there can only be

one objective—the maximum production of munitions at whatever cost. In peace the objective of production is a part of the problem, for production then must anticipate the changing individual preferences of the citizens. The popular cry, “We planned for war; let us plan for peace,” makes remarkably little sense. If Socialism is to replace market automatism an altogether new system must be developed. The economic system can be compared to a man. The brain is the government and the muscles are the multitudinous businesses of the country. When a man walks he exercises more than 100 muscles. The brain decides where the man shall walk, but, having so decided, if it then tried consciously to direct the appropriate movements of all the muscles the man would fall to the ground. The brain perhaps may be capable of inventing a mechanical robot and of consciously controlling all its movements from a switch panel. But it can never hope to produce a machine with the reflexes of a man. Just so, a completely centralised economic system can be controlled by a few men in Whitehall, but it cannot have the adaptability of a decentralised system where, instead of dictating to the consumer what he shall want, it is the function of thousands of businessmen up and down the country to be attentive to his whim.

So much for the drawbacks of centralisation. Secondly, Socialism, though decrying profit because it presumes that one man’s gain is another man’s loss and that wealth exists instead of being continuously created, cannot abolish the profit motive. Among the motives which make men work are pride in the quality of work done and pride in its usefulness. But the strongest motive, though perhaps diminishing as the reward goes up and the responsibility increases, is the profit motive. The average man works chiefly for what he can get. No political or economic system will change human nature, which is much the same in England, Russia or darkest Africa. People of any party who get their experience from industry rather than debating societies will bear me out. The unctuous sentiment expressed by a recent Socialist convert

"The privilege of serving one's country in time of war is never questioned: the privilege of serving one's country in time of peace is a Socialist idea" is answered by Mr. Horner, Secretary of the Mineworkers' Union, who tells us that the miners will not dig more coal until they are given sufficient "financial enticement," or by the Journal of the Amalgamated Engineering Union: "We shall get increased production . . . when we satisfy the people generally that it is worth their while to work hard." The ordinary man needs "a kick or a carrot." The Government therefore cannot expect co-operation from any section of the public if it attempts to substitute production for "use" or "social advantage" for production for profit. Government officials, rather than the consumers when they tender their money, become the arbiters of what is or is not for social advantage: and the Government is forced to press on, by an infinity of orders and regulations, towards a goal which, as it agrees in its saner moments, is unattainable.

CHAPTER 4

SOCIALISM AND FREEDOM

The "New Freedom"

IN the first chapter I defined the objectives of politics as firstly the achievement of freedom from want and secondly an advance to a higher standard of living without prejudice to liberty. There are thus two aspects to be considered in judging political principles—the economic aspect and the individual aspect. I have tried to show that from the economic aspect Socialism has less to offer than Capitalism. Let us now consider the impact of Socialism on the freedom of the individual.

Socialists have confused the issue by coining a phrase. They speak of "the new freedom—economic freedom." The poor, they mean, have been in the thrall of the rich. They have been dependent on the Capitalist employers for their wage and, because of the insecurity of the Capitalist system, are not truly free agents if they wish to change their jobs. In any case recurrent slumps threaten their standard of living and nullify a reasonable expectation of a permanent minimum wage. Freedom, in this interpretation, becomes merely an economic concept, freedom from economic care, even though it is dramatised into a "Socialist vision—a world in which men and women can live without fear of poverty, without bowing to privilege, without surrendering destiny to the mercy of the Capitalist or the Commissar."* For what is non-materialist, which yet has reality, in this concept? Fear of poverty?—we have been over the economic pros and cons of Socialism. The stranglehold of the Capitalist?—there will be less freedom to "sack the boss" when each industry is run by only one employer, the

*Mr. M. Foot, M.P., in the *Daily Herald*.

Government Board. Bowing to privilege?—what are these privileges, except the hereditary system of the House of Lords, which do not relate to what can be bought, like public school education, and which therefore are based on inequality of income; Socialists approve of inequality of income and it should not be a surprise to them if people choose to spend their money in buying the best for their children.* The Commissar?—he does not yet exist and it is the danger of his coming that I shall discuss in this chapter. As for the Socialist vision, another contributor to the *Daily Herald*, Mr. John Betjeman, paints more graphically the materialist paradise:—

“I have a vision of The Future, chum,
 The workers’ flats in fields of soya beans
 Tower up like silver pencils, score on score:
 And Surging Millions hear the Challenge come
 From microphones in communal canteens
 ‘No Right! No Wrong! All’s perfect, evermore!’ ”†

Socialism is almost exclusively an economic doctrine. Its challenge to liberty is indirect. Apart from Professor Harold Laski and the fellow travellers, there are few Socialists who wish to curtail liberty, even if they do not attach over-much importance to it. The argument I am about to develop is that Socialism, though economic in motive, is a doctrine, the more it is put into practice the more it automatically requires the restriction of liberty.‡

*On the other side of the question, the obligation of the Government to provide a high quality of education for the children of the less successful, I shall have more to say in Chapter 7.

†From the Planster’s Vision, *New Bats in Old Belfries*.

‡Mr. Herbert Morrison himself admitted this in a speech on December 16, 1945: “We may find in planning, in fact we already have, that the cost of liberty will be the sacrifice of certain personal freedoms.” How a man gains liberty by sacrificing freedom he did not explain.

The First Freedom to Go

Socialism involves centralised planning. Planning is "production for use—the deliberate direction of economic activities towards chosen ends." Now who chooses the ends, what shall be produced? At present it is the public which chooses and the public is made up of the twenty-six million people whose incomes were discussed in Chapter 2. At present they express their desires by allocating their incomes among the various classes of goods and they are for ever registering changed desires by changes in their allocations. The desires of the public are thus automatically reflected in the prices that can be charged for goods and the prices determine whether production of a particular article shall be expanded or contracted.

This process is undemocratic, says Socialism, because it is not the public, but the rich, whose desires are thereby chiefly registered. I exposed the fallacy of this argument in Chapter 3, but let us follow the plan through. Instead of the price system, the "public interest" is to be the arbiter of what is produced and in what quantities.

Now if there is to be full employment there will also be maximum production. Thereafter, in the short run, more production of one thing can only be obtained by less production of something else. Planning, if it is to accord with the real wishes of the public, requires therefore the existence of a common public taste. But in respect of what proportion of total production can such unanimity be expected to exist? Houses or flats, taxi planes or motor mowers, cinemas or museums, twopenny novelettes or art magazines, public libraries or public houses—which should be more and which less? What too of distribution? As wartime registration of consumers at only one food shop for various commodities has clearly shown, the average shopper attaches great importance to the right to change her retailer at will. Yet Socialists promise us shopping for necessities on an area basis only. Consumers' choice is to be sacrificed to theoretical economies in distribution.

We can find an illustration of the value of consumer's choice even now. According to the Government,* as much was consumed in 1946 as 1938. Yet, because so much was rationed and so much was available only on a take-it-or-leave-it basis, no considerable section of the population believed it. The public took not what it wanted but what was there to take. In general it may be said that the more educated the public becomes, and the more time and money people have for leisure, the more their tastes will diverge. It will become progressively more difficult to adapt the plan to the people and administratively more inevitable to have to adapt the people to the plan.†

Thus, starting on the premise that the present system of producing goods is not sufficiently democratic, Socialism arrives at a new system which is not democratic at all. The public cannot give a mandate for the production of less margarine in favour of more nylon stockings because, to be of any value, it would have to express its preferences to the extent of three places of decimals for all the articles it may want to buy. The Government, not the community, will have to make the decisions on which the production plan is based.

The Tendency to Arbitrariness

Freedom of consumer's choice then is the first freedom to die, but that is only the beginning of the story. Where will the Government's decisions lead them? They have to decide not only what to produce but also what not to produce. Their plans cannot be implemented through Parliament because parliamentary legislation would be too slow and not sufficiently detailed. Therefore they must give

*White Paper on National Income and Expenditure (1939-1946) Cmd. 7099.

† As Dr. Dalton said in the House of Commons on June 30, 1947. "In a democracy such as ours, in which differences of opinion are widely held and freely expressed, there is no one economic policy which would unite the country."

themselves comprehensive powers to rule by regulation, powers which are piling up in their hands now. Their motives now may be sweet reasonableness, but what of the "Minister round the corner"? Since usefulness has become the touchstone how small a step it is from the erection of production targets to the arbitrary curtailment of production "for the sake of the public good." I have heard it seriously suggested, for instance, that newsprint should be withdrawn from newspapers devoting space to salacious serials like "Forever Amber" or having a high content of racing news, and transferred to those willing to report Parliament more fully. By itself this is no criminal suggestion and it can well be argued that "the public good" would thereby be increased. But what a power is here created! How near it would have become to a control of the press and the favouritising of some newspapers at the expense of others. If this seems too fantastic to those who are inclined to take all our present freedoms for granted let them heed the expressed opinions of many Socialist Members of Parliament that the B.B.C. should be used more for "broadcasting the Government's point of view"—Government propaganda, without right of opposition reply. In such gradual ways does arbitrary power grow. The exercise of a power, taken for a worthy motive, becomes a precedent for its abuse. One can see the straws in the wind now. Not long ago I read of a case in Parliament where food inspectors had been searching cars for black market food. The question arose whether the inspectors had been armed with search warrants. It turned out that the inspectors had been acting with the police, themselves having warrants. But Socialist members were astounded that the question should have arisen. Surely everyone condemned the black market, so what did it matter whether the inspectors had search warrants or not? The principle was thereby missed. If an inspector were to be given, without application to a Court, power of search of anyone suspected of a breach of a regulation where then would personal liberty be? The precedent would have been

created to authorise any Government official to search any house or person that might strike his fancy. As to houses, there are even now over ten thousand officials, representing nine Government departments, entitled to enter private houses. There are a further eight Government departments* having such powers but at the moment not using them.

The Inevitability of Growing Power

The more the field of planning is extended the more the Government is involved in detail and the more powers it must give itself—whether or not it likes power for power's sake. It is sometimes argued that the Government is merely transferring to itself the same powers as were exercised collectively by a number of employers. But that is not so. Firstly, all power in one hand is of an altogether more absolute nature than the sum of divided power exercised without a common will. Secondly, the Government arrogates to itself compulsory powers that were previously wielded unconsciously by the consumers, and penal powers that were never held before. Indeed the prophets of Socialism revel in the growth of power. "It was the function of the 19th century to liberate," said H. G. Wells. "It will be the function of the 20th to control."

Here, therefore, 'is no transfer of power. Centralised planning creates an altogether new power exercised by a few men in control of the Government. And in order to cover all contingencies the powers taken or continued from wartime, on the excuse that they will probably never need to be exercised, frequently exceed what is presently necessary. Already, for instance, the Government can without legislation nationalise all industries, cause a docker to be sent to prison for three months for breach of contract, or close down any newspaper.

To what lengths must this process go? In the first two years of their Government we have had so far only a

*Mr. Attlee in the House of Commons, February 13, 1947.

preliminary dose of Socialism. And the first attempt to put Socialism into practice has come at a singularly favourable moment. Before the war much earnest thought had been given to the problem of how to acquire the powers necessary for its imposition. The bolder spirits, like Sir Stafford Cripps, favoured their immediate assumption and prevention of any appeal to the Courts against them.* But in the aftermath of war—before even the Japanese war was over—many of the powers were found ready to hand. The public, instead of being alarmed at the sudden removal of their safeguards against tyranny, was little disturbed at the continuance, for an alleged emergency period, of powers with which they had become familiar during six years of war. But as nationalisation spreads across industry “like ink on blotting paper,” the necessity to seek yet more powers over personal liberty will become more plain. For the moment, the 1947 economic crisis has further obscured the issue. It has been possible to represent the direction of labour as a temporary expedient which would never have been used except in an emergency. Let us therefore forget about the crisis and analyse instead the impact of production for use on the labour force.

“Democratic” Planning

Recently—in 1947—some members of the Government seem to have become aware of the road ahead. Sir Stafford Cripps has consequently invented a distinction between “totalitarian planning” and “democratic planning.” If one

*“The Government’s first step will be to call Parliament together at the earliest moment and place before it an Emergency Powers Bill to be passed through all its stages on the first day. This Bill will be wide enough in its terms to allow all that will be immediately necessary to be done by Ministerial order. These orders must be incapable of challenge in the Courts or in any way except in the House of Commons.” *Can Socialism come by Constitutional Methods?* Sir Stafford of course assumed a Socialist majority in the House of Commons so that no effective “challenge” by that body need be feared.

were to accept the Government's *Economic Survey for 1947* (Cmd. 7046) as an example one would define democratic planning as laying down a production programme and hoping it will be carried out. Stalin has christened this “guess-planning.” The felicity of his description is emphasised by the results achieved.*

Actually, of course, it is not quite so simple. Planning at the moment is for the most part carried out by central allocation of raw materials. But the planners are not able to consider each industry separately. There are no industries which do not use the components or services of other industries. The boundary between one industry and another is like the boundary between the North Sea and the English Channel—in other words you cannot see it even from Whitehall. That is the reason why the Government have taken so long to make up their minds about the nationalisation of iron and steel. It is not enough to increase raw material allocations to the manufacturers of the final product. All the sub-contractors and their sub-contractors have to have allocations of other raw materials increased to the same degree. Unfortunately most of the sub-contractors will be making components for other industries as well; some of these industries will be producing “essentials” and some “luxuries.” Accordingly planning

* *Manpower Changes during 1947*
(thousands)

	Plan	Actual
Coal	Plus 40	Plus 28
Public Utilities	„ 17	„ 6
Transport and shipping	Minus 3	„ 54
Agriculture and fishing	Plus 39	„ 9
Building and civil engineering	„ 50	„ 75
Building materials and equipment	„ 22	„ 18
Metals and engineering	„ 29	„ 54
Textiles and clothing	„ 70	„ 61
Other manufacturing	„ 39	„ 114
Distribution and services	„ 55	„ 178
Government service	Minus 80	„ 14
Total civilian employment	Plus 278	„ 611

by the central Government cannot be confined to broad allocations 'industry by industry leaving the Government Boards to work out the detail. The Government itself is forced into detail.

Exactly the same consequences accompany a non-political plan for planning put up by Sir Oliver Franks* in his *Central Planning and Control in War and Peace*. Sir Oliver agrees that planning in peace and war are very different things. But he concludes that central planning is inevitable at least until 1960 for three reasons: firstly, because of economic measures which will have to be taken for defence purposes; secondly, to avoid unemployment; and thirdly, because of the unbalanced state of world trade. The first reason seems to me irrelevant. There are certain steps advisable for security—like the sugar beet subsidy, the maintenance of ordnance factories, or the American synthetic rubber quotas—but they do not require a new system of industrial control for their satisfaction. The second reason—the danger of unemployment—also does not apply if my discussion of monetary policy in Chapter 2 carries any conviction.

The third reason—the unbalanced state of world trade—has two aspects: unrequited exports and an actual deficiency of exports. The problem of unrequited exports to soft currency countries is certainly a Government concern, but it can be achieved by exchange agreements rather than by giving directions to individual industries.

The issue of central planning therefore distils itself into the question whether exports can be balanced with imports without the setting of export targets. It would be superfluous to go into the subject at length since Mr. Roy Harrod, the distinguished Oxford economist, has written an entire book on the subject, *Are These Hardships Necessary?* But it

*Sir Oliver Franks, Professor of Moral Philosophy, Glasgow University, became a temporary civil servant at the outbreak of war and worked his way up to Permanent Secretary, Ministry of Supply, by 1945.

must be a source of mystery to those who are target-minded that before the war nearly all countries achieved an approximate import—export balance without any targets at all, provided they allowed their exchange rates to move naturally. Admittedly there was considerable unemployment in those countries but, as I have already tried to show, its existence could have been cancelled out by monetary measures. What reason then is there for supposing that balance now can only be achieved by targets? Exporters do not export as a national duty; they do so because foreign countries are the only market in which they can sell their goods. But if demand is artificially expanded at home by inflation and very high prices are offered them, export goods tend to be placed on the home market.

To some extent physical controls can check this tendency, but a more important effect of inflation, which can never be controlled, is the diversion of labour and materials to “inessential” industry, thereby creating their scarcity. In such circumstances the export industries cannot achieve maximum production, while at the same time imports are stimulated. Whatever austerities are inflicted upon us, we shall never export enough until the Government nerves itself to suppress inflation. Unbalance abroad is but a reflection of unbalance at home.*

*In technical language an unfavourable balance abroad is the equivalent of the excess of investment over *ex post facto* savings. (The qualification “*ex post facto*” is used to distinguish what is actually saved from what the community tries to save—as discussed on page 15.) If, therefore, investment, which includes Government expenditure, exceeds saving—as at present—there is nothing strange about an unfavourable balance. It is inevitable. In fact any other sort of balance—favourable, unfavourable or even—can be brought about by adjustment of investment and exchange rates. And when I speak of “adjustment” of investment I am not advocating controls over industrial development programmes, but of budget deficits or surpluses combined with a movable rate of interest.

It might perhaps appear reasonable to object to the foregoing analysis on the ground that, since the tendency to save

Once there is a balance at home, balance of external trade must follow, even though in discovering our true standard of living we may find it lower than that we are at present enjoying. That will be so to the extent that our productivity has not increased to cover the loss of interest on the overseas securities sold during the war and that the "terms of trade" (the price relation between imports and exports) have moved against us. On the other hand we shall at the same time be able to jettison those two forms of control which more than anything else are reducing productivity—raw material allocation and the programming of imports.

But what sort of central planning does Sir Oliver envisage? What he sees as necessary is an import and an export programme. These are to be arrived at by an "estimate of the national productive resources and a division of the anticipated product between home and foreign markets," taking into account "what the people can reasonably be expected to accept or put up with"—rationing until 1960. In short, production programmes are to be laid down industry by industry with sub-divisions of goods for export or the home market and "resources" are to be allocated accordingly. These programmes are to be "acts of will"—they are not hopes but orders. Sir Oliver envisages the Government only taking the broad decisions and industrial associations doing the detail. The one serious difficulty he sees is the necessity to reproduce the unity of purpose which was the distinguishing mark of wartime planning—though why he should expect or hope to bring it about considering that, apart from general prosperity, multiplicity

before the war exceeded investment, we ought to have achieved an appreciably favourable balance. The *ex post facto* saving was, however, slightly less than investment since it was reduced by underemployment. Stimulation of investment by budget deficits would have increased *ex post facto* saving, and the situation, aided if necessary by a downward adjustment of exchange rates, would have righted itself.

of purpose is the mainspring of material progress, I find it difficult to comprehend.

Here is the flaw in Sir Oliver's reasoning. The real distinction between planning in war and peace, apart from the fact that the object of planning is now part of the problem instead of being clear and single-minded, is that in war planners never had to sell anything. What mattered about a tank was not the price—and that was a pretty penny—but the delivery date. What matters very much about exports is how much they cost and who can be persuaded to buy them.

The planners can compel industry but they cannot order foreigners to comply with the plan. It sounds so simple to talk about broad decisions on export policy. But those broad decisions can only be based on the past, to which Government information is confined. Markets change rapidly and so does the trade in new lines. Thus the broad decisions result in some industries being allocated materials for exports they cannot sell and others having to refuse orders because they cannot make the goods. When allocations are changed the same difficulties arise in regard to the sub-contractors as I examined above. As plans fail, more drastic methods are demanded and, as before, the Government is drawn into detail.

Having got into detail, the allocations will be found not to have produced the corresponding quantities of goods. Some industries will not have had the necessary labour force while others may even have a surplus. Naturally the tendency will be to render labour idle where it is surplus but, since there is no faith in the immutability of plans, nothing like the amount of the surplus is reproduced in workmen laid off. Even of those laid off only a small proportion seek re-employment where the planners want them. The maldistribution of labour then is holding up the plan. Somehow labour must be moved.

Recruiting labour by exhortation has already proved of little effect. The next step is to make wages in the favoured industry more attractive. But arbitrary fixation of wages cannot be carried very far. Firstly it is violently opposed by

the Trade Union leader, who sees both wage negotiation taken out of his hands and also, unless he is of the favoured industry, discrimination against his own members. Secondly the workman himself will become disgruntled. Notwithstanding his skill and experience, he may find himself receiving less than a workman in another industry as a result, not of the gradually expressed preferences of the public in demand for the goods he helps to produce, but of a sudden stroke of a bureaucrat's pen. The public cannot be made to change but what a bureaucrat has written can be crossed out again.

And so, by slow steps, direction of labour becomes inevitable. No doubt it will be imposed piecemeal, just as the crisis direction was insinuated on to the people and the first instalment decreed during a Parliamentary recess. But in the end it must be a ruthless control producing quick substantial movements and not the ineffectual present control which the minister justifies on the ground that he very rarely uses it. Trade Union objection will be strong, but not as strong as to Government-imposed wage differentials. After all, it will only affect a minority of members who, once they have been moved from one industry to another, will come once again under powerful union protection. Perhaps indeed the power of the Trade Unions will even have declined into the position prophesied for them by Dr. Dalton, quoted on page 40. But eventually the issue will have to be faced. In all other countries which have adopted centralised planning the freedom of the individual to choose his own job was an early victim of the planner's axe.

Planners must face the fact that centralised planning consists of allocating equipment, raw materials and labour—all three together. As Mr. Robert Hall, Director of the Economic Section of the Cabinet Secretariat, has written, "The problem of Socialism is the choice between alternative uses of limited resources."* Plans will not work out unless

**The Economic System in the Socialist State.*

those three arrive promptly where they are intended. How, then, can one plan without control of labour? Sooner or later the planner has to choose between becoming an economic dictator or abandoning centralised planning. There are only two ways in which Socialism can end—economic dictatorship or failure.

It is probable that many members of the present Socialist Government, and their older supporters, would shrink from extreme measures. If they do, then their plans must fail and the way will be opened for the wild men of the party to proclaim, as Messrs. Bevan and Shinwell have already proclaimed, that Socialism is not getting results because there has been too little of it, not too much. At that time, all the powers which this Government has acquired on reasonable pretexts will be remembered.

Economic Power Means Political Power

There is no clean-cut edge to the boundary of economics. Economics shade off indefinitely into sociology on one side and into politics on the other. It is impossible, therefore, to create an economic dictatorship without its acquiring some of the characteristics of a political dictatorship. We have already seen that centralised planning requires powers over individual freedom; powers whose grant is accepted without much protest only because they are accompanied by an assurance that the more radical of them will not be used now. The further the field of planning expands, the more decisions must be taken which cannot be subjected to Parliamentary delay nor, because of their number, even to Parliamentary scrutiny. The tendency now, and under Socialism the trend must continue, is for power to pass out of the hands of Parliament at the same time as regulations bear increasingly on the freedom of the individual. The more power passes into the hands of the Government, the more the need grows for continuity of policy. When all basic industry is directly run by the Government, and all the rest of industry is working to a detailed Government

plan, a complete change of management at every election would have chaotic results. The thin voices of extremists like Professor Laski, supported even by Sir Stafford Cripps, would grow into a mighty roar that a general election must not be allowed to sabotage the "great Socialist experiment."*

Economics, then, cannot be separated and considered in isolation from freedom. Economic power requires political power. An increase in one power means an increase in the other. The greater the power the greater the opportunity for its abuse. It is not enough to excuse the creation of unassailable power to plead the best intentions. The assurance of freedom is dependent on the diffusion of power between the central government, local government, the Courts and the individual. No one set of persons can then wield too much. Power once accumulated lies ready to be usurped by the less scrupulous. Even if Socialism were to produce more material prosperity than Capitalism—which I have tried to show is the reverse of the truth—would that prosperity be worth the certain sacrifice of freedom of consumer's choice and freedom to choose one's job, and the removal of all safeguards against outright tyranny? Nor is the prospect of tyranny a mere hypothesis. For tyranny or the reversal of Socialism will eventually be the issue. I have shown that Socialism must end in economic

*"The acceptance of a planned economy involves the necessity to think of freedom in terms of the assumption that the decision to plan is broadly respected . . . Freedom will not be maintained if there is room for doubt whether the decision to plan as an essential element of its life is likely to be reversed by some chance hazard of electoral fortunes." Professor Laski in *Reflections on the Revolutions of Our Time*, p. 336.

"Unless during the first five years so great a degree of change has been accomplished as to deprive Capitalism of its power, it is unlikely that a Socialist Party will be able to maintain its position without adopting some exceptional means, such as the prolongation of the life of Parliament for a further term without an election." Sir Stafford Cripps in *Can Socialism Come by Constitutional Methods?* p. 2.

dictatorship, or failure. If a Socialist administration is seen to fail, and yet its principles are still upheld, then democracy itself, government by consent instead of by compulsion, will have been brought into disrepute. It will be pleaded that extreme measures have been proved essential. As has already come to pass on the Continent, history will show that Socialism is but a halfway house to Communism. Socialism, by acquiring extreme powers on plausible pretexts and by the inevitability of its failure to get results without using them, is doing, and cannot help doing, the spadework for Communism or Fascism. Indeed some Socialists know it. Mr. John Strachey, M.P., in his *Theory and Practice of Socialism*, tells us: "It is impossible to establish Communism as the immediate successor to Capitalism. Hence Communists work for the establishment of Socialism as a necessary stage on the road to Communism. . . . It is the function of the Socialist system of planned production for use, and distribution according to work done, to establish the pre-requisites of this higher form of society, which is Communism."*

*Later, in the same book, published in 1936, Mr. Strachey justifies secret police methods, provided the right people are made to suffer: "Russian workers are only now in a position to modify the use of those secret police methods which we in Britain and America suppose (erroneously as a matter of fact) that we have long outgrown. . . . But the conclusion that the secret police force used by the Russian Soviets from 1918 to 1935, namely the G.P.U., was nothing more than the old Tsarist Okrana under a new name, is to evince incorrigible political illiteracy. The class which the Okrana held down wielded the weapon of the G.P.U. Thus, even if the methods of the two organisations had been identical, which they were not, they would have served precisely opposite social purposes." Page 208.

THE MANAGERIAL REVOLUTION

Struggles for Power

I HAVE so far been discussing economic systems on the assumption that, beside Communism, there were only two to choose between—Capitalism and Socialism. There exists also what purports to be another school of thought which proclaims the “Managerial System.” It is distinguished from other theories in that it is determinist—that is, the system of which it is the prophet must inevitably be put into practice and, whether it is a good system or not, no human action can avert it. This system was “discovered”—or at any rate formalised—in Mr. James Burnham’s *The Managerial Revolution* (1941).^{*} Mr. Burnham is a lapsed American Communist who has now set up in the political theory business on his own.

Mr. Burnham starts with the assertion that Capitalism is finished. Its mass unemployment, recurring economic crises with each boom peak below the last, idle investment funds and failure to exploit new industrial processes alike signal its inability to survive. Having dealt with such charges in Chapters 2 and 3, I need not further rebut their truth, but let us follow his theory through.

Politically, it seems, history can be interpreted as a series of struggles for power between various economic groups. Thus the capitalists gradually vanquished the feudal lords and the “managers” are now triumphing over the capitalists. The weapons used are chiefly “ideologies.” A new ideology is never the cause of a change in the political system, but is an expression of “hopes, wishes, fears, ideals” under the cloak of whose slogans the self-interest of an economic group is concealed.

^{*}Mr. Burnham says at the end of his book that the theory is not determinist, but the whole of his argument rests on it being so.

"Mediæval realism and early nominalism, Augustinianism and scholasticism, were from a sociological point of view all variant types of feudal ideologies; they all contributed to the formation of attitudes favourable to the maintenance of the feudal system and the rule of the feudal lords. The differences among Calvinism, Lutheranism, Presbyterianism, Anabaptism, Episcopalianism, Quakerism . . . were not trivial in the sixteenth and seventeenth centuries and on many occasions led from philosophical debate to bloodshed. But these were all, at least as against mediæval Catholicism, capitalist religious ideologies, all contributing in variant ways to the development of attitudes favourable to capitalist society as against feudal society."

This, then, explains the transition to a capitalist society. There are a number of wars, ostensibly waged for widely differing reasons, but in reality engineered by the capitalists in their struggle against the feudal lords. The capitalists do not do much fighting except among themselves—they hire mercenary armies instead—and in order to get the common people on their side they finance thinkers who "work out" capitalist ideologies.

Mr. Burnham's political history reads like some fabulous history of the bees. It is twisted out of recognisable shape because of the Marxian obsession with class struggles. There never was a struggle between feudalists and capitalists. Feudal lords lost their power because they exhausted themselves in fighting between each other and the King. Capitalists, doing no fighting at all, became capitalists because it was only by the sharing of resources that large-scale industries could be established. A feudal lord could not have erected a steel works on his estate and staffed it with his retainers. Science made complicated machinery possible. Machinery invented Capitalism. As for the suggestion that Calvin, Luther and the rest were all party hacks, what is there reasonable to say?

Emergence of the Manager

Discussion of Mr. Burnham's theory of history has been necessary in order to explain his theory of the future. If all history were a tale of struggles between economic groups then we might expect to find such a struggle going on now. That in fact is what Mr. Burnham does expect us to believe. The present struggle is between the capitalists and the managers, and the managers are winning.

The emergence of the managers as a class is allegedly based upon the increasing scale of industry. The early capitalist, in addition to putting up most of the capital, also ran the business technically and administratively. In large-scale industry the owners are a large number of small shareholders who have no control over the running of the business.* Power now resides in three types of boss—the "Manager" who is technical engineer and organiser of production, the "Executive" who is responsible for producing a profit and the "Finance-Capitalist" who looks after the financial policy. Now, owing to the "collapse" of Capitalism, the State must increasingly take over nominal ownership of industry. Therefore the Finance-Capitalist disappears. Similarly most of the functions of the Executive cease because, in Mr. Burnham's economy, most goods are distributed to the public in kind and there is no need for State industry to operate profitably. We are left with the technician called "the Manager." The managers as a class are in favour of State control. "Many, perhaps most, of the present managers do not consciously want or favour State ownership." Neither are they consciously in league together. Nevertheless, though they do not know it, they are banded together to abolish the capitalists, to "curb the masses" and to "eliminate the threat of a classless society." Their motive for these manœuvres is to capture the higher rewards previously falling to the "finance-capitalists."

*This generalisation is by no means true but I am following Mr. Burnham's argument.

The Managers Take Over

We have not yet plumbed the ambition of the managers. "The nominal rulers of the State—presidents and kings and congressmen and deputies and generals and admirals—are not the actual rulers." The nominal rulers, as in Marx's words, are the "executive committee of the governing class." "If the owner of a factory wants persons kept out of his plant, he has the right to keep them out; and the armed forces of the State will back him in that right. It is in such ways that the Capitalist State acts as a political agency of a ruling class which is not identical with the State." Similarly when industry is run by the managers, the bureaucrats "may think, in their own minds, that they pursue an independent course; but their projects, their wars and displays and manipulation of mass sentiment, all require enormous resources. In practice these can be assured only through their collaborating with, and in the end subordinating themselves to, those who are actually directing the processes of production, to the managers. The sources of wealth and power are the basic instruments of production; these are to be directed by the managers; and the managers are, then, to be the ruling class." Next, the managers, in order to maintain their ruling position, must set up a dictatorship which subsequently they may relax only sufficiently to let off political steam and to know what the masses are thinking. Finally the whole of the process is inevitable and nothing can be done about it. What the managerial revolution comes to therefore is a theory of inevitable complete Socialism with a dictatorship, not of politicians, but of technicians.*

*It is true that Mr. Burnham distinguishes the rule of the managers from Socialism but he is using the latter term not in its British but in its original Marxian sense—a classless society in which the manual workers run all industry and the coercive institutions of government (police, army, prisons) will disappear altogether. Nobody nowadays thinks such a society possible until man is a very different animal. And even the Communists, in their instructions to party members, so Mr. Burnham tells us,

On Governing Classes

I have dealt with the "Managerial Revolution" at some length firstly because it has attracted a good deal of respectful attention, secondly because it is the *reductio ad absurdum* of Marxist theory and thirdly because, by pressing to the ridiculous the identity of politics and economics, it brings out their difference.

Politics is "the science and art of government," how and what to govern and what not to govern; economics is a study, groping towards a science, of what actions in regard to production and distribution will produce what results. There is no tyranny of economics which forces us towards Socialism. There is no governing class—and never has been for the last hundred years—which, having economic power, must automatically have political power. It is perhaps easier to make out a case for the previous existence of a governing class in so far as there have been a number of industrialists in the House of Commons, and upon the list of contributors to party funds. But "log-rolling" and "pressure-groups" have never become the practice in the British Parliament nor have they been given the opportunity which public congressional hearings of a host of industrial matters have provided in America. British industrialist M.P.s are not chosen by other industrialists and quickly lose their influence if known to be speaking in their own interest. To speak of a governing class in Britain means also to assert that Gladstone or Lloyd George or Churchill were the tools of some economic group, just as to speak of the managerial revolution means to fancy that Mussolini or Stalin or Hitler were the tools of the managers. Similarly there is no more reason, under Socialism, why the managers should become a governing class. It is sometimes argued that the reality of power inevitably resides in the class exercising a skilled

and he should know, speak of workers' control of industry as a "transition slogan," that is, a useful piece of propaganda which is never intended to be carried into practice.

function without which the community could not exist. The suggestion is that the more the Government takes over the more it will be floundering out of its depth and will consequently have to rely upon its skilled servants. But where is to be found an indispensable class? Certainly not in the heads of Government Boards. The charges of patronage which, rightly or wrongly, have been made against Socialist ministers, would be idle did they not rest on the fact that there are a large number of people from which those heads could be chosen. It might be argued alternatively that the top rank civil servants were indispensable. So they are, but only in the sense that for a time the community would be less efficient without them, but no more so than if the leading doctors, or legal draughtsmen, or harbour pilots, were suddenly removed. I had the honour once myself to be called indispensable for a short time during the war but I knew very well that indispensability really meant "inconvenient to replace at the moment." There is sense in the proverb "there are better fish in the sea than ever came out of it." Mr. Burnham in his turn chooses the production engineers as his indispensables. But they are not the real managers in any case. Mr. Burnham dismisses the activity of the administrative managers as mostly concerned with profit making, but one has only to talk to the technical experts who went hopefully out to run the German Control Commission to learn how little time they had for purely technical matters. The truth is that indispensability is a matter of degree and there is no type of expert who is infinitely more indispensable than other experts. With this realisation goes any logical need to have a governing class.

Politics More Than Economics

Politics and government are a matter of ideas not of exclusive economics, of classes, nor of indispensable technicians. The pen is not only mightier than the sword, but also than the slide rule. We are not being driven to some undesired social revolution by a blind fate. In all the

preoccupations of the politician there are always a number of alternatives. Power is useless without alternatives. It is their existence which makes politics a fascinating subject to so many people, and nonsense of a prevalent obsession that the day of the parliamentary politician, except as the representative of an economic group, is passing. Even in economics there are a number of alternatives. I treat only of Capitalism and Socialism because they are broadly the only systems under which large scale industry can be made to work. If, however, we were to choose to combine mass emigration with a return to a largely agricultural economy, as some people suggest we ought because they consider us no longer able to support our present population, there would be yet more alternatives. Dismissing therefore the managerial revolution and any other determinism, the next chapter resumes the discussion of Conservative and Socialist principles.

THE OUTSIDE WORLD

The Russian Menace

LOGICALLY there is no reason why a Socialist and a Conservative should not hold identical views on foreign affairs. Indeed, to the casual observer, this country, like America, has pursued a "bi-partisan" or non-party policy since the war. In nearly every Parliamentary debate the Opposition has voted with the Government and the only discordant voice has come from a group of the Government's own supporters. This seeming agreement has been effected by two extraneous circumstances—the astonishing blatancy of Russian diplomatic methods and the massive personality of Mr. Bevin. The first has made the cause of a working partnership with Russia difficult to argue while the second has bludgeoned into support many Socialist M.P.s who have shown a tendency to side with the Keep Left group.

Russia's threat to peace at the present time is so obvious that no reasonable man can be blind to it. Under cover of her armies she has compelled seven nations, containing a population of some 100 millions, to become her satellites, to accept rulers trained in Moscow, to suppress freedom, to kill truth, to liquidate patriots, to orientate their economies so that eventually they may be assimilated into the polyglot collection of "autonomous" republics of the Soviet Union. Where there are no Russian armies she directs foreign intervention, as in Greece, supports local insurrection, as in Persia, and in every major country in the world maintains a fifth column of sycophants and agitators.

Once again there is talk of war. The danger, however, is different from that of 1939. Hitler, at the head of the world's strongest military power, was determined to stake all. As we now know, he in truth derived an exaltation from the thought of shedding blood, German blood. He even shocked

the Prussian generals. He did not shun the principle of war; he welcomed it. And if he attempted to avoid war so long as he could have his current way, it was only to make the eventual war easier. The danger of war with Russia is of a different order. It is a danger of her underestimating the moral courage of the rest of the world and, having failed to engineer a *coup d'état*, of taking overtly aggressive steps, to which other nations will be forced to reply with an ultimatum. It may come to that in Berlin. Or, again, if she dared to support the Greek guerrillas with a couple of divisions, such a situation might arise. But behind her noisy aggressiveness Russia conceals weakness. Her people are weary, the vast destruction of the war is far from having been made good. Her army, though less dependent on an elaborate supply system, has never approached the modern efficiency of the Western powers—the Germans reckoned one German to five Russian divisions as parity—and in her own country was only held together by the switching of the rallying cry from Communism to patriotism. Above all she has as yet no atom bomb nor the other horrors which the Americans are perfecting. A war outside Russia would be a most hazardous enterprise for her to undertake. Indeed her diplomacy has made it crystal clear that she meditates no such war. How else could be explained her intransigent and insulting behaviour towards the democracies, or still more marvellous her refusal to agree to the Lilienthal Plan—thus acquiring the atomic secrets without suspicion but also without delay. Never for a moment since 1945 has she encouraged her late allies to believe in her good intentions and so, in Hitler's smooth way, made easy a subsequent aggression. The menace of Russia lies rather in the economic malaise of the countries still outside her grip. While they are sick, the task of Communist agitator and Trade Union infiltrant is easier and there is a chance of such countries voluntarily submitting themselves to a Communist-controlled police, army, justice, press and radio, a state whence they will rapidly be enmeshed in the Russian net.

Superficiality of Non-Party Foreign Policy

If Russia were fully prepared for war and its probability just round the corner British unity in foreign affairs would no doubt be a fact. As it is, agreement is only superficial and is based on Mr. Bevin's "tough" diplomacy. But that foreign policy is not fundamentally above party principles is shown by the Labour Party Pamphlet, *Cards on the Table* (1947) which describes itself as "an interpretation of Labour's Foreign Policy." Herein it is claimed: "The constructive achievements of Labour's foreign policy are already impressive—particularly since they can be contrasted so clearly with the aims which a Conservative Government would have pursued." Labour Party policy is summed up as a never ending attempt to get Russia to play her proper part in the United Nations Organisation while standing "patiently firm against Russian encroachment." Conservative aims, on the other hand, are identified with Mr. Churchill's famous Fulton speech in which he popularised his conception of the Russian Iron Curtain and called for an Anglo-American alliance to counter Russian menaces.

Principles of Permanent Policy

Before discussing the principles underlying these policies let me first pose the question, what is the object of foreign policy? Crudely it is to get what you want by all methods short of war. Diplomacy, between opposing nations, has no place in war except to bring it to an end. What then do we, as a nation, want? Our objects are partly self-interested and partly moral. Essentially we wish to preserve peace, because war is destructive materially and spiritually, uncomfortable and evil in itself. Additionally, from a moral motive, we wish to use our influence to stand up for the weak and from a material motive to expand our trade.

These objects may appear too many and too ambitious, but in practice they have been found to be inter-related. Sir Eyre Crowe, then head of the Western division of the Foreign Office, wrote a remarkable memorandum in 1907.

He observed that Britain, having possessions all over the globe, must maintain the freedom of the seas against any possible enemy. If, however, she abused her power resentment and jealousy would be aroused throughout the world. Therefore our foreign policy must be closely identified with the vital interests of the majority of nations. These interests were their independence and their trade. He concluded that Britain's policy must always include insistence on the maximum freedom of trade and a direct and positive interest in the independence of small nations. Thus what seems best intuitively is fortuitously discovered to be in our own interest.

The Two Aspects of UNO

Here we have the criterion by which our present foreign policy should be judged. How far is that policy conforming?

Immediately after the war there seemed some chance that Russia would co-operate in the reconstruction of a sane world. It was possible that, once the peace treaties had been settled, we might be able to conduct foreign affairs through UNO. But Russia remained true to her past and faithfully sabotaged all UNO's efforts by obstruction and the veto. If a world organisation is to assure world peace all the strong powers must will it to succeed. As Russia has at present no such wish, UNO cannot yet begin to function as a world government.

Nevertheless by common consent we persevere with UNO, but with too little awareness of our object. We do not disguise from ourselves that membership is no longer a substitute for a foreign policy. But the only difference in our attitude is that, whereas formerly League Success was a forum in which, by judicious appeasement of Russia, we attempted to coax her into co-operation, now we have made it a sounding board for home truths. Meanwhile the small nations, their respect for the idea of world government sapped by interminable slanging matches between the great powers, have come to regard horse trading for votes

as more realistic than presenting or supporting proposals founded on moral principles.

Although UNO has not realised its original promise it still has immense importance. Instead of providing an immediate guarantee of "peace in our time" its full development has become a long-term project. But if civilisation is to survive it will have eventually to be based on a UNO-like body and cannot forever rely for its existence upon the present preponderance of military force among the more pacific powers. Looking back it was perhaps foolish, even if there had been a common will to make it work, to expect it to become fully effective in so short a time. Small beginnings are now forced upon us. Limited in scope, there is still much work to be done. There are many disputes in the world that are not connected with Russian-dominated territory. Even the League of Nations, over which much scorn has been poured, had ten useful years of life and was responsible for stopping three minor wars.

There are thus two aspects of UNO. Firstly, it has to be a limited association for settlement of disputes among those nations tired of power-politics. Secondly, its record has to become the prospectus for a future UNO which shall be a real world government. For the performance of both these roles we have to restore to UNO both reality and the atmosphere of reality—the atmosphere of Nuremberg, which, alone of international gatherings since the war, sustained the dignity and commanded the respect indispensable to the dissolution of national prejudices in a higher responsibility. That can only be begun by preventing obstruction from reducing its sessions to a farce.

To this end the veto must be abolished or its use confined to its original purpose—the adoption by UNO of sanctions against one of the great powers. This has already been suggested but inevitably the restriction of the veto has been vetoed. What has now to be effected is the revision of the constitution by majority vote. The result will no doubt be the withdrawal of Russia with her satellites from UNO.

But outside UNO she is incapable of conducting power-politics in a more barefaced manner than at present while still a member of the United Nations. The other result would be more significant. UNO without Russia might be made to work and two-thirds of the world would share the benefits now denied to the whole of it.

Western Union

Collaboration with Russia having proved impossible, search is now being made for counterpoise. Ready to hand for this purpose lay the conception of a United Europe or Western Union, strong enough to constitute an independent power in a world increasingly divided between Russian and American influence, with all other nations as pawns.

Since the capitulation of Czechoslovakia the idea has grown prodigiously in popular esteem. Whereas formerly it was regarded as "an aim for our children's children" it is now thought to be capable of immediate achievement. Certainly it is desirable and certainly the unity even of Western Europe is much less than a hundred years ago. Barriers against movement, against trade, against culture, have greatly increased. Europe has tended towards Balkanisation. It will be a happier as well as a stronger and more prosperous continent if that tendency can be reversed.

The earliest aim of Western Union is economic self-help, because it is on destitution that Communism breeds, and upon the apparent ineffectiveness of democratic governments quickly to improve economic conditions that Russian propaganda plays. There is scope for a considerable reduction or elimination of tariffs and other orthodox steps for the maximisation of trade between friendly countries. Such measures will have a stimulating but not a sensational effect. The experience of Benelux, a much smaller scheme, has shown how difficult it is to arrive quickly at economic agreements, which involve large immediate sacrifices; however much larger may be the eventual benefits. Customs Union for Europe could only be achieved at a single series

of conferences if the economies of its countries were all complementary. That not being the case, Customs Union can only come about gradually as prejudices are worn down and local maladjustments in the industries successively affected are assimilated.

The political problems are similarly by no means to be resolved by a few pious platitudes. Membership of the Western Union will involve surrender of far more sovereignty than membership of UNO. Union could not be said to be achieved until it is administered not by representatives of individual governments but by a parliament of Europe. Our confidence in our neighbours has somewhat to develop before we could surrender our destinies to an assembly in which we shall be only a small minority. Many powers of government would doubtless be reserved to the constituent nations, but at least the major responsibilities of defence and currency would become matters for the Union government. Among European nations the British forces are incomparably the best-equipped at the present time. It would require a remarkable act of faith, not always justified by the past, to render up all our secrets, particularly while Communists abroad continue to occupy positions of trust or advantage. As with policy, so with organisation. Joint polyglot staffs would be a headache, but the Argyll and Sutherland Highlanders under an Italian Corps Commander would be an absurdity.

A common currency requires a common budget and, so long as we have to put up with centralised planning, common controls. While, therefore, we should in the early stages have to submit to a lower standard of living, our own being higher than the average, we should, on present performances, have also to endure the unpleasing spectacle of others enjoying, through black markets of all kinds, the goods and permits to develop which our higher standard of discipline to the law denied us. And to the extent that an incompetent or venal civil service abroad failed to collect due taxes we should contribute more than our fair share.

All these problems, and many more like them, can no doubt be solved in time. I have set them down not to prove Western Union impracticable but to show that it is a long-term project. There is a little of hysteria in the present shrill advocacy of Union, which is a reflection of another idea, far more certainly mistaken, that the British Empire is no longer by itself a commonwealth of strength and recognised authority. Conversely, morally as well as physically, the countries of Western Europe are in much worse state than Britain. While the idea of Union will greatly strengthen them, that rebuilding, enabling them to resist Communism from within, will be assisted by Marshall aid. But if, as some enthusiasts of all parties are suggesting, there is an attempt to rush Europe into a grandiose scheme of political federation involving even a common "production plan"—thereby visiting on Europe the full-blooded Socialism which has already done so much harm to ourselves—the Union would be exposed to unbearable stresses.

There is no good ground for asserting that only by federation can all the countries of Western Europe be prevented from being swallowed by Russia one at a time. Czechoslovakia, so far the only victim having a democratic tradition, allowed herself to be mesmerised by the Communists. The Communists commanded neither a popular nor a parliamentary nor a Cabinet majority. Had the non-Communist Ministers and their supporters possessed a little more resolution, and insisted on a showdown before the Communists had salted the police, or even afterwards had summoned President Benes to call out the army, the Communists would have been sent packing, as they were in Azerbaijan. There is no evidence to show that Russia had any intention of backing her puppets with Russian troops. To be sure, Europe would be a more formidable nut to crack if she were an effective federation. On the other hand she would be a ripe plum if she were an ineffective federation with about the same real homogeneity as the Austro-Hungarian Empire. Federation now, based

as yet upon fear and upon no other bond of mutual sentiment, would be likely to break asunder in its earliest stages, dissipate the all-important Marshall aid, and damn the experiment for all time. Let us not blind ourselves to the fact that Western Union in the sense of federation is unlikely in less than twenty years to take shape sufficiently so as to constitute a "third force" in world power-politics.

Fulton

Apart, then, from the important aspect of economic self-help Western Union is scarcely more a substitute for a present foreign policy than membership of UNO. While striving to create a new international grouping we must also take the world as we find it.

It is a world in which force counts most. Even amid the lofty idealism of 1944 it was agreed that UNO could not work without "teeth." How much more necessary are they now! As Mr. Churchill has said, "there is nothing the Russians admire so much as strength and there is nothing for which they have less respect than military weakness."

The European mutual defence pacts recently signed are useful, but, even if an American guarantee were added to them, they do not create mobile power able to be used in any part of the world where Russia might be tempted to risk aggression. The Middle and Far East are already active spheres of her subversive operations. Our clear course, therefore, is to form a strong partnership with the strongest pacific nation, America, and devise with them the common staff studies, manuals, weapon development, use of bases and interchange of officers advocated at Fulton. Only so can an integrated army, navy and air force, as was built up painfully during Hitler's war, be ready for immediate action. Only so can we win Russian acquiescence to present sovereignties, by presenting for their inspection superior force.

It is very likely that the foregoing is in fact the policy the present Government is pursuing, but it is far from that

which they are advertising. The Government may little by little have adopted the Fulton policy which, but two years earlier, they so boisterously condemned, but the one Fulton tenet they have not yet espoused is publicity for Anglo-American alliance. Without publicity the partnership loses much of its effect, for its primary purpose is not to defeat Russian aggression, but to prevent it. It is difficult to see how the Government can ever publicise the alliance, unless war looms near. The bulk of Socialist rank and file still export their prejudices and regard as anathema the idea of alliance between Socialist Britain and Capitalist America. They embrace eagerly the figure of a full-grown Western Union, obstinately oblivious of the fact that it is yet an infant and no help in a scrimmage.

While, therefore, Mr. Bevin's new policy should be applauded he is only being able to pursue it with the aid of camouflage. The body of his supporters is still wedded to the idea that Russia will eventually see sense through being told about it, rather than by being shown that nonsense will not be tolerated.

Russian "Suspicion"

How can such aberration be possible? Partly, to be sure, because of the natural desire not to admit defeat, not to agree after so short a time to the ending of a great experiment. Persevere, show a firm front, never give in, and eventually Russia will see the impossibility of her attempt to divide and conquer. "Every historical precedent suggests," so runs the Labour Party pamphlet, "that no government will continue to pursue a policy whose failure is known to be certain. . . . Our hope is that sooner or later the Russians will realise that the policy they have pursued is both impractical and unnecessary, and that the existence of Labour Britain as a stable world power is protection to Russian security and a guarantee against anti-Soviet aggression."

Herein is the foundation of all error. The assumption is that Russia is aggressive only because she is herself afraid

of aggression. Who is she afraid of? She cannot be afraid of down-and-out Europe. She cannot be afraid of Britain who, the pamphleteer tells us, is incapable of opposing Russia in any case. Then she can only be afraid of America. What is there to be feared in America's record? Her besetting sin has been too little, not too much, interference in other nations' affairs. Though her interests were at stake she delayed entry into two world wars. After 1945 she stood aloof for a year while Britain alone provided most of the opposition to Russia's obstruction to world reconstruction. She even offered to yield up the fearful secrets of the atomic bomb provided Russia, in common with herself, would submit to international inspection of war plants. As for Trumanism, the policy of supplying credits to bankrupt nations directly threatened by Russia, it was only initiated after nearly two years of Russian persecution mania. It is true that there are a few frightened people in America who would like to wage a "preventive" war against Russia now, but can anyone doubt that even their small voices would be stopped if Russia were to show the smallest sign of collaboration for peace?

Let us on the other hand examine Russia's own record. After the Kaiser's war the Soviet government reconquered nearly all the territory gained in 150 years of Czarist "expansion." Between the Revolution and 1939 she engaged in no fewer than eleven wars of aggression.* Between 1939 and 1941 she attacked Poland, Finland, Roumania, Esthonia, Latvia and Lithuania. Since then she has

*Finland	1918	Daghastan	1920
Latvia	} 1918-19	Bokhara	1920
Esthonia		Outer Mongolia	1921
Lithuania		Manchuria	1929
Ukraine		Turkestan	1937
Georgia	1920		
	1921		

Poland (1920) might also be included. There is, however, some doubt where to lay the blame as the opening shot in the war was fired by Poland.

re-established her domination and extended it to Bulgaria, Albania, Czechoslovakia, Hungary and, though lately challenged, Yugoslavia. Was there ever such a black record? If she is still really seeking security her fears will not be calmed until she has gobbled up the entire Continent.

The "Keep Left" Group

An apologia for Russia is put forward by the Keep Left group of the Socialist Party, although the leader, Mr. Crossman, seems lately to have abandoned his followers. According to this group Russia's grounds for alarm arise from three experiences—that Britain took part in an invasion of Russia in 1918, that she and America permitted Hitler to re-arm, and that they encouraged his attack on Russia in order to avoid being attacked themselves. We have had good relations with Russia since 1918 and the other excuses are too silly to be discussed. The group goes on to argue that the regimes in Turkey and Greece, bolstered by American dollars, are no more democratic than the Russian-controlled regimes behind the Iron Curtain. Those regimes are certainly unsatisfactory by our standards but there is at least a freedom of expression there, no secret police, and an attempt to run the country for the good of their own people rather than in accordance with the orders and requisitions of a foreign power. The Greek regime, moreover, is based upon an election judged by British, French and American observers—the Russians refusing to co-operate—to be "a true and valid verdict of the Greek people." Finally the group propose to effect a federation of Eastern and Western Europe by means of cold-shouldering America, unilateral disarmament and the encouragement of mutual trade.

The first proposal is intended to remove Russian suspicion that we are seeking to form a combination against her, but the second would be likely to replace suspicion by a very different sentiment. Are Russia's aggressive tendencies likely to be decreased or increased by the voluntary

abdication of one of the other two remaining world powers? As for the suggestion that the way of peace is to be found in the way of trade, apart from repeating the usual Marxian fallacy that the only springs of human action are economic and materialist, it involves a shutting of the eyes to what is going on in Eastern European countries. When Russia dovetailed the economies of those countries with her own she did not do so on the basis of equal partnership, of a mere customs union. There is no analogy even with Hitler's forcible incorporation of Austria in Germany. Starkly, those countries are being bled white. They are being treated to a dose of colonial exploitation and economic imperialism such as has not been known in the world for a century past. Eastern Europe is ceasing to exist; it has become a part of Asia.

A "Pro-Soviet Labour Government"

The theory of Russian suspicion and fear is fabricated on sentiment. "It is a major tragedy of Socialist history," says the Labour Party pamphlet "that the advent to power of a pro-Soviet Labour Government in Britain coincided with the opening of a sustained and violent offensive against Britain by her Russian ally." Now why should a British Government, Labour or any other party, be not merely prepared to maintain amicable relations with Russia but be actively "pro-Soviet?" It is because Russia was the first country in the world which professed to adopt Socialism. It was a much more extreme Socialism than British Socialists have ever advocated and it is a mystery why their intellectuals, from Mr. Bernard Shaw downwards, should have wasted so much adulation upon an oriental despotism which could only bring discredit on their own programme. If ever there were a reactionary government it is the Soviet government. Progress in all four freedoms—of speech and expression, of worship, from want, from fear—has been violently backward. The most staggering point in that staggering documentary book, *The Dark Side of the Moon*, is not the Russian treatment of the Poles

but the fact that such treatment was regarded as quite normal by the Russians themselves.

Yet our Government is "pro-Soviet." They can dismiss ideological difference as if it were a case merely that Russians prefer coffee whereas we prefer tea. In truth there is a far wider gulf between Communist and Western ideology than there ever was between Christians and heathens. The Christian world is distinguished by what Mr. Victor Gollancz* has called "respect for personality" by which expression is meant the essential spiritual equality of every individual, whose collective rights are more important than any man-made institutions. Respect for personality demands recognition of the sacredness of truth, justice, toleration and the other Christian moral values. Communism, on the other hand, while promising Utopia in the future, denies all those values in the present. The individual is a mere means to a distant end; he is expendable. Morality in Communist thinking has been summed up in a sentence. Mr. Gollancz quotes the words of Dr. Georg Lukacz, People's Commissar for Education during the Bela Kun dictatorship, as reported by a writer in *Unser Weg* of March, 1921:

"a representative theoretician, who was perhaps the sole brain behind Hungarian Communism . . . answered my question, as to whether lying and cheating of the members of the Party by their own leaders were admissible, by this statement: Communist ethics make it the highest duty to accept the necessity of acting wickedly. This, he said, was the greatest sacrifice which revolution asked from us."

The revolution continues.

Yet, I quote again, our Government is "pro-Soviet." The habit of looking at foreign peoples through home-coloured spectacles will never help to their understanding. Certainly the Russians do not make that mistake. They are

in no way interested in the difference between a Conservative and a Socialist Government in Britain. They know only two kinds of government—those that are Communist and under Russian influence and those that are not. Nor is it only a matter of tactics. Other people are so much concerned with the efforts of the Russians to spread their propaganda abroad that they overlook the opposite propaganda value freedom has on the subjects of tyranny. The existence of freedom is a threat to tyranny and the far-seeing tyrant naturally desires its destruction.

Back to Principles

The Socialists made play, at the 1945 General Election, with the argument that the Left at home (i.e., a Socialist Government) would get on better than the Conservatives with the Left abroad, but the Russians continued to describe them in their quaint language of abuse as "social-democrat lickspittles." Socialists make the same mistake when dealing with other nations. Even Mr. Bevin was to be heard in 1945 saying about France "Left understands Left but Right does not." To quote from the pamphlet again, "In most of the countries which were free to choose their foreign policy, government was shared between Communist parties, with Russian affiliations, and Right Wing parties which looked to the U.S.A., while the Socialist parties lay uneasily between them; wherever possible we have tried to help these Socialist parties." But why should a British Government automatically support one type of party in a number of different countries? There is continual talk throughout the pamphlet of "Labour Britain" and a "Socialist foreign policy"; never do we read of a "British foreign policy." Even if there were not many brands of Continental Socialism and even if they were all of them akin to British Socialism it has still to be observed that Socialism is only an economic doctrine and has no monopoly of faith in democracy or pacific intentions. Are we to favour a foreign political party

which wishes to nationalise its central bank even though it is prepared to enter a coalition with Communists or discriminate against British trade? "By their works ye shall know them," not by their economic labels. There is a lurking moral in Palmerston's humorous remark "God created only two races of men—Englishmen and foreigners!" All people do not think as we do and if they start from the same theories do not necessarily arrive at the same actions. The only sure basis of foreign policy is, as in every other sphere of politics, to stick to one's principles. Our principles should not be based on support of or opposition to any particular foreign countries but, as discussed above, on the maintenance of peace, the protection of the weak and the furtherance of trade. Given present behaviours a close partnership with America, whatever the home politics of its next President, seems most likely to keep those principles bright.

British Imperialism

As far as the outside world is concerned, British Socialists have reversed the old proverb of the beam in one's own eye and the mote in the eye of a neighbour. The outsized mote in the Russian eye is minimised because Russia has a Socialist label on her. Our own beam—the British Empire—is maximised because the fact of having subject peoples is thought reactionary, in the sense that it seems to hark back to a period when it was customary for the strong to compel the weak.

Nobody today cares very much about how Britain came to acquire colonies—and they were acquired from nearly every possible motive from invitation to naked aggression. Nor is there any disagreement in the statement of principle, made twenty-five years ago, whereby we administer them. We have declared ourselves trustees for the coloured peoples until such time as they shall be capable of governing themselves. Meanwhile we are committed to rule them in the dual interest of the natives and of the outside world trading

with them, with the proviso that if there is clash of interest the native interest shall be paramount.

Timing of Colonial Self-Government

Where there is disagreement it is in the attitude of the political parties towards the grant of self-government. The Socialist, while recognising that immediate self-government is at present impossible in many cases, breathes a sigh of relief when he has been able to confer it. From every colony there are natives who have received a European education and who are evidently alert and capable people. If natives, once educated, are not our intellectual inferiors our rule over them seems to smack either of arrogance, hypocrisy or administrative incompetence.

The Conservative approaches the problem from the opposite end. First he is intensely anxious that whatever happens to a Colony it shall remain in the Empire, whether under some form of self-government with restricted powers as in Malta or with full dominion status. This anxiety arises from the conviction, irritating though it may be to America, that the British Commonwealth and Empire is the greatest force for peace in the world. If it does not hold together, and if it cannot continue to enjoy a mutual imperial defence, its otherwise weak units will become the cat paw of other powers. The fear of Russia in India and of China in Burma are cases in point. Secondly he tries to look at a Colony from the bottom to the top rather than the other way up. He is not impressed by the Europeanisation of the coloured visitor to London. The completely Europeanised native is a rarity. If he is a type he is also politically a mistake because it was a mistake ever to base colonial education on European lines and thus try to turn Colonials into ersatz Englishmen. What the Conservative is anxious to know is what is the level of enlightenment in the villages, who is going to govern the villages, what safeguards are there going to be to protect racial or religious minorities, how successful has native administration been, and whether the politically minded

really represent the interests of the great majority of the inhabitants. In other words, the test is not whether the politically minded want to govern but whether they are capable of governing properly.

Parliamentary Democracy No Panacea

The terrible experience of India is enough to expose the importance of these questions and many others like them. There is still time in many parts of the Empire to avoid the fundamental mistakes made in India over thirty years. The most important lesson is that wherever there is a racial minority English parliamentary democracy will not work. Parliamentary democracy depends on a homogeneous society, where all sections of the community have a chance of effective representation in the government, and, if for the moment they are voted down, there is a prospect of success next time. In a plural society there is no such prospect. Neither the Sikhs in Pakistan nor the Moslems and Untouchables in Hindustan nor the Christians in either state have a chance of effective representation.”* Hopelessness breeds despair and democracy produces not a counting of heads but a breaking of them.

“Indirect Rule”

There is no single alternative to parliamentary democracy. Where the population has not collected in towns nor acquired a partly European outlook—and the vast majority of British colonial people have not reached this stage—the answer seems to lie in a gradual development on the foundation of “Indirect Rule.” Indirect Rule is an original system of white government whereby only general directions are given to existing native and tribal authorities who are

*Nor should the influence of “class” be ignored. Class has meaning only in so far as it is difficult to get into or out of it. There is vastly more rigidity for instance in Hindu castes or between the clerk and the villager in Africa than between any European classes.

responsible for detailed administration in accordance with traditional customs. That is not to say that implied approval is given to all those customs. Where they are wrong by any standard, as in the case of marriage by capture or the execution of mothers of twins, they are forbidden. The essence of the system, however, is firstly to preserve and evolve native customary law and not to plant an alien homogeneous law on heterogeneous peoples; secondly, to develop the native through his own institutions. As the late Sir Bernard Bourdillon, a colonial administrator of long experience, described Indirect Rule:—

"The system provides an excellent training in the art of government, and, owing to its extreme elasticity, permits the handing over of authority to proceed gradually and almost imperceptibly, and not, as usual, by a series of overt steps, each step being accompanied by a certain amount of friction and bickering."*

An example of the development from this original system is the new constitution for Nigeria, sponsored by the Coalition Government. Each of the three regions of Nigeria, which differ greatly in the race, customs and religions of the tribes, was granted a regional assembly. The assemblies, however, are not elected by direct vote but are nominated by the various tribal authorities. Similarly a central Legislative Council is elected by the regional assemblies. Though the assemblies and the council are still largely advisory they are the bodies to which power can gradually be transferred. Thus the wishes of the native are given expression through the unit of local government with which he himself has contact and the mischievous power of the Europeanised agitator who can practice his demagoguery on the easily swayed town populations is curbed. Henceforward he must work with the local governments. He can no longer appeal over their heads to the mass hysteria which he knows how

*In a contribution to *British Commonwealth Objectives*, edited by Sir Henry Lindsay.

to generate and before which white administrators are cowed into granting precipitate and inequitable constitutional reforms.

Britain's Job as Trustee

The job of Britain as trustee, then, is not to make haste in converting all Colonials into dark-skinned Englishmen governing themselves under English constitutions. The evolution of the Colonial peoples must be in accordance with their, not our, tradition. India is no special case. It is no more heterogeneous than most of the Colonies.

Our special responsibility is to ensure that, before we go, the governments we leave behind are capable of governing fairly all the peoples their territories contain. The boast that we have given such and such a territory its freedom, as the Socialist Government has boasted in the case of India, is empty and horrible when the act has been the immediate precursor to torture by the ten thousand, slaughter by the hundred thousand and destitution by the million. The mistakes in India were longstanding and a perfect solution to its problem impossible. But there is no merit in the gesture of Pontius Pilate.

Colonial Development

The other current enthusiasm in regard to the Colonies is economic development. The Coalition Government promised a gift of £120 millions over ten years for this purpose while the Socialist Government is providing loans for a further £150 millions outstanding at any one time. The latter are to finance large-scale programmes, like the East African ground nuts project. It is assumed that all these schemes will alike raise the standard of living of the native, both in improving the public utilities at his service and in making his community more prosperous, and increase the raw materials available to Britain without a dollar tag.

But, like self-government, the slogan "development" wants to be approached with caution. Half the complaints of

Colonials against us are based on development, only they call it exploitation. Whether there has been exploitation over a period is doubtful. Though there have been some very high profits taken out of the Colonies and some very low wages paid, on balance it does not appear that the percentage return on capital has been excessive. Even in gold mining, where the return on a wasting asset is expected to be higher than elsewhere, it has been calculated that the money taken out has been only a little over 4 per cent per annum.* But if there is to be an improvement of living standards capital is required and 90 per cent of it has come from outside the Colonies. The standards of native life are highest where there has been the largest introduction of outside capital. The Colonies are not taxed and receive instead substantial grants from Britain. Nevertheless in these days of awakened nationalism, we must be more than ever careful that no justification is given for a charge of exploitation.

Danger of Rapid Industrialisation

Before the war development was for the most part concerned with commodities like metals and rubber, which commanded a ready world sale, whereas agricultural products, now so much wanted, were often a glut on the market. Under the Coalition a new attitude could be detected in so far as the £120 million grant was to be spent in accordance with the wishes of the Colonial governments. Now, the old attitude has been resumed and a large part of the new £150 million loan is to be devoted to projects sponsored by the Ministry of Food.† The purpose of the

*Professor Frankel, in *Capital Investment in South Africa*, calculated the average return on capital invested in the Witwatersrand from 1887 to 1932 as 4.1 per cent.

†The theoretical proportion is one third. But since the upper limit of the loan is £150 millions *outstanding at one time* and the Ministry of Food has got off the mark much more rapidly than the Colonial Office the proportion to be spent by the Ministry of Food is likely to be considerably higher than one third for several years to come.

Ministry is to enlarge production of commodities most needed by the British consumer and it is assumed that this will automatically bring the greatest advantage to the Colonies. In the words of Mr. Strachey:*

“the colonial territory in question will be most benefited by producing the commodity of which there is the greatest world shortage, for which there is the greatest world demand, and for which, other things being equal, they will get the best price. Therefore the development will benefit both us, the world, and the primary producer of the commodity.”

But development in the Colonies has a quite different effect on life from development at home. It is not a similar problem to building satellite towns or reindustrialising the depressed areas of Britain. Ninety per cent of Colonial peoples live in isolated village communities and exist by subsistence agriculture—that is, they produce nearly everything they consume from their own communal village land. Development too often means uprooting the native from his ancient village society and putting him into a town or a plantation camp where he becomes partly Europeanised, frequently acquires the vices of both worlds and is a disruptive influence when he returns home.

Lt.-Col. W. R. Crocker in his *On Governing Colonies* (1947) puts life into a dry argument:

“... the way of industrialisation, which is the favourite European specific for curing poverty, must be treated with extreme caution. It is not to be denied that certain necessities like bricks, tiles, fruit juices, soap and sugar and perhaps textiles can be manufactured. . . . But plans go further than that. Quasi-official development schemes have been announced which envisage large-scale industrialisation in certain areas.

The European and American world today is an urban world. All values are urban values. The townsman has

*House of Commons, November 6, 1947.

vanquished the countryman. It is therefore not easy to convince the flat dwellers who man the Colonial Office . . . that there is a case against their philosophy of Ford's in his flivver, All's right with the world; that a high standard of life means paved streets, shop windows, neon lights, glossy advertisements, aspirins, several cinema shows a week, and wireless sets for every man which, in keeping with the B.B.C.'s self-dedication to making the common man commoner, will bring to the furthest desert well and to the remotest forest grove the saxophones wailing without end and the voices of jazz women previously heard only around Piccadilly after dark. The one people in the world who have not lost happiness are, with the best intentions, now being menaced with a life rich in gadgets but richer still in dependence, frustration, emptiness and sorrow."

There is force in the argument that development of the Colonies according to our needs is the only way of re-balancing world trade. It is permissible continually to harp upon the dollars to be saved thereby. But it is hypocritical to claim that, had we no needs of our own, this is the way which we should have chosen to better the Colonies in their own interests. Had that been so we might perhaps have admitted them to our councils. The natives of the Kongwa tribe may well have been a little astonished when, on the inauguration of the East African ground nuts scheme, they received the following personal message from Mr. Strachey:

"On your success depends more than on any other single factor whether the harassed housewives of Great Britain get more margarine, cooking fats and soap in the reasonably near future."

Instead of jeering like Sir Stafford Cripps that "it is really most unfortunate that past Governments have so neglected (Colonial) development" it would be franker to recognise, against previous assurances, some enforced departure from the trusteeship principle.

If we are really to regard the native interests as paramount, our task, as soon as we can return to it, is not indiscriminate industrialisation but principally the improvement of subsistence agriculture. This will result in less benefit to ourselves, since there will be less to export, but, in addition to being of more material benefit to the mass of the natives, it will also enable them to retain a social stability which rapid industrial revolution would destroy.

Conclusion

From this general discussion of the outside world there emerges one valuable moral—home-made yardsticks give false values abroad. Socialism, Right and Left, democracy, economic development—all of them have different meanings in different countries. Politically the best in one country is always different from the best in another. What is right at home may be wrong abroad. British Socialists, sustaining themselves on rigid doctrines and ancient slogans, have failed to absorb this lesson. Consequently for no better reason than the joyful identification of labels popular at home they are apt to make foreign friends and espouse foreign causes which an objective analysis would lead them to spurn.

CHAPTER 7

CONSERVATIVE PRINCIPLES

Removing a Dilemma

THIS is supposed to be a book about politics and the reader may have been surprised to find economics bulking so large in it. While I may seem to have devoted little space to purely non-material issues it is because matter and spirit can hardly exist separately in this world. It is all very well to exalt the things of the spirit as being different in kind from the things of the flesh, but the ordinary man will not be a hero without bread. No doubt most men would prefer to be free even if freedom meant a small sacrifice in material comfort. But if the difference were very large, if the choice were between being a fat slave or a rag-and-bone freeman, then, provided the potential dictator were one of our own countrymen, perhaps a significant number of seemingly high-principled people might be found on the side of the slaves. I have attempted to remove that dilemma and to show that by a happy coincidence freedom and prosperity go hand in hand. Socialism means less freedom and less bread. To complete the story let us now consider the principles of Conservative economics, coming last of all to the general Conservative outlook.

Conservative Economics

On economic matters the Conservative panacea is conveyed in a slogan—Free Enterprise. That slogan unites all anti-Socialists; it is the obvious antithesis to Socialism. What does it mean as a positive principle?

The ancient definition of Conservative economics was that it consisted of judging every question on its merits, as it arose, without disturbance by dogma—it saw what was wrong and put it right. Now, opportunism, it may be, is the method of the practical man. But in politics, where no

party can obtain a majority without gathering to itself a number of diverse elements, the public expects consistency in its leaders and will not, except in a crisis, give a "Doctor's mandate." A policy of suiting means to ends will not found a faith.

Another interpretation of Free Enterprise is based upon the recognition that it is the Conservative Party that has increasingly circumscribed industry with the power of the State during the last hundred years and upon the assumption that its only course is to steer a middle way between the old Liberal principle of *laissez-faire* and the Socialist principle of State intervention everywhere. Let industry be controlled but instead of regulating it from the centre, as under Socialism, let each industry regulate itself. Let each industry have a Trade Association, which shall be the channel of communication between the Government and individual firms and let the Association promote "an economic price based on efficiency," achieved, if needs must, by control of output or price, or both. In return for recognition of the special position to be occupied by Associations, the Government would set up tribunals to protect the consumer. This policy is dignified by the title of Industrial Self-Government. In fact, what is it but restrictionism in a cloak of respectability? The very suggestion of tribunals to protect the consumer is *prima facie* evidence that without them he will be exploited.*

And how shall the tribunals protect him against exploitation? The history of restrictionism has shown one clear lesson—that there is no such thing as a fair price. It is one thing to influence the general level of prices—but that is a Government responsibility. It is quite another to fix individual prices. Quoting Professor Lucas again:

"The entire price structure is a complete aggregation of individual prices which vary according to quality, the

*I am saying nothing against Trade Associations in their consultative and informatory roles.

status of the purchaser, the quantity purchased, the use to which the commodity is to be put and many other circumstances. These prices must be not only proper *per se*; they must also be carefully co-ordinated one to another. . . . In most basic industries where there are a large number of relatively small producers who operate under highly diverse conditions of production and distribution, and who frequently produce a wide variety of products, the obstacles to effective action become nearly insurmountable. . . . Not only are these problems so complex as to be nearly incapable of satisfactory solution by even the most effective of methods; they frequently involve also such a direct clash of interests that acceptable solutions are obtainable at all only by the most empirical of compromises."

In short, the determination in each case of "an economic price based on efficiency" is likely to be attended neither by the maximum industrial progress nor by effectual protection of the consumer.

Restrictionism is an evil. It raises prices and decreases efficiency. It makes industrial progress more expensive. Excuses can be made for its adoption during an unexampled depression whose causes were unknown at the time. To talk about uneconomic price cutting is permissible when there is a general depression: when a large proportion of industry is operating at a loss. It is permissible in the case of a declining industry and the Government may have to decide to "ossify" that industry. But restrictionism cannot be defended as an economic policy in a period of what we hope will be unexampled prosperity.

The Return to Competition

If there is to be any freedom in Free Enterprise, it must be found not only in freedom from government tinkering but freedom from any controls, by whomsoever imposed, on output and minimum prices.

The virtues of Capitalism are dependent on competition.

The consumer is protected, not by tribunals, but by insistence that there shall be real competition, not merely its appearance in the form of financially independent firms shackled by price agreements, output quotas, exclusive dealing contracts, deferred rebates and commercial boycotts. The consumer then protects himself by transferring his custom from the inefficient to the efficient firm. The inefficient firm, instead of being subsidised through its Trade Association by the efficient firm, has the choice of re-organising itself or of going to the wall.

There is still one prejudice to overcome—that is the identity of competition with *laissez-faire*. The doctrine of *laissez-faire*, which means in its bare bones that the function of government is confined to the suppression of lawlessness and the administration of justice (what has been called the Bo-Peep philosophy of government), is commonly supposed to have been the economic doctrine of the nineteenth century and, as the poor were then very poor and the rich very rich, is now roundly condemned. Because competition was then relatively free and *laissez-faire* was a “hands-off” policy, it is assumed that competition is another facet of the same idea. Now the reverse is true. A large amount of Government intervention is needed to re-establish competition.

The Function of Government

What, then, is the function of central government? Do not let us fall for the Socialist imaginary dilemma, “Plan or no Plan”—imagined to coax those who hesitate before agreeing that nobody knows his business except the politician. Certainly the non-political Sir Oliver Franks, whose book I quoted in Chapter 4, is right when he says that, in the economic field, a government nowadays must shape situations before they arise rather than confine itself to the correction of revealed disharmony. But that by no means involves the government in business management. The government is like a municipal authority running a

public allotment. It may provide the fertiliser but it does not fuss about with individual plots. The government must frankly recognise that it cannot run everything. Nor is it desirable that it should do so. Planning should not consist of giving instructions to individual industries. A national authority—the government—should frame a national plan. The object of its planning is to make individual inducements tend in the same direction as the national interest. It must lead, not drive, and in such a way that industry wishes to follow and does not have to be circumvented with an ever-rising barrier of compulsion. In the present situation, for instance, the desired expansion of exports would very well be obtained by disinflation at home, which would make it necessary for manufacturers to find markets abroad. Instead the opposite policy has up till now been pursued, by the failure to damp down inflation, of making it more profitable to sell at home than abroad and then attempting to “direct” goods abroad after all. That way lies inevitably frustration, inefficiency and, as I have shown, eventually totalitarianism. Some Socialists, who do not share Sir Stafford Cripps’s statistical approach to humanity and who have more insight into what makes men tick, are well aware of this. Mr. J. E. Meade,* a Socialist economist, assents readily that money and the pricing system are far more suitable media for planning than quantitative controls and intricate industrial targets. He makes but three provisos, that:

“First, the total supply of monetary counters must be neither too great nor too small in relation to the total supply of goods and services to be purchased. Secondly, the total supply must be equitably distributed so that no one obtains more than a fair share of command over resources. Thirdly, no private person or body of persons must be allowed to remain in a sufficiently powerful position to rig the market for his own advantage.”

*In the February, 1948 number of *Economica*.

These are the ends which it has been a principal aim of this book to advocate and towards which Conservatism strives. As Mr. Meade observes, they have not all been achieved in the past. The failure to achieve them was due chiefly to lack of economic knowledge. In particular, monopoly, to which the third proviso refers, was encouraged by the restrictionism of successive Socialist and Conservative Governments during the 1930's, in the ill-founded hope that therein lay the short-term cure for unemployment. We know better now. In financial controls, in money volume adjustment, in its power to stimulate or retard investment, in taxation, and in exchange rates, the Government has everything necessary to carry out a national economic plan.

Having delineated in general terms the borderline between the areas of government and individual concern in the economic sphere it remains to define more exactly its precise position in all matters which may jointly concern them. If I may now trespass into the third dimension, the function of government is to provide a framework upon which the life of the community can be built. The problem is to define what parts of the building are the framework and what parts are to be completed according to the free choice and initiative of the citizens. I shall attempt to provide a short list of abstract principles of government and to apply each of them so as to adopt a logical position to some present controversies.

First Principle

My first principle is a platitude—or rather it ought to be: Judge by uses, not abuses. Nothing should be changed unless there is something else, probably better, which can be put in its place or unless it is wholly bad. This is a principle which Socialists continually ignore. Dr. Dalton, for instance, in the book already quoted, advises the abolition of private joint stock companies because of “current abuses.” He does not explore the extent of the abuses, how they

might be cured, the part played by private companies in the origin of great industries, or whether it is practicable to order them to change themselves into public companies. Because there is a parasite the host must be destroyed.

Second Principle

My second principle is that the Government is a Good Umpire but a Bad Competitor. The government must dictate the conditions of the market but cannot, and should not, run the market itself. The government must be responsible for creating conditions under which balanced economic development can take place at the maximum rate. Subject to this responsibility and to the exceptions arising from my third principle below, the government should allow competition to solve the problems of industry.

I have said that the government cannot run the market itself. It is equally important that it should not. The worth of a state is founded on the character of its citizens. Character is only developed by independence and responsibility. If the government tries to run industry in detail it has to do so by forcing the leader class into bureaucracy. Under bureaucracy policy decisions can only be taken at the top, and the top is small. Bureaucrats are often abused because they interpret their instructions literally and seem unable to exercise common sense in the treatment of special cases. But it is in the nature of bureaucracy that none but the highest can admit to common sense. Common sense does not invariably make good sense and in bureaucracy every new decision is a precedent for a whole industry or consumer service. None but the highest officials can be allowed the opportunity of making mistakes and to the minor official the letter of the law has to be the whole law.

What sort of development of character does that induce in a bureaucrat? If he is not allowed to consider special cases he soon ceases to care about them. His mind becomes like an electronic calculating machine. It knows all the answers but none of the reasons.

Free Enterprise, besides being more efficient materially than government ownership, ensures the existence of a very large number of independent firms. There are then very many people who are their own masters and very many more who are only one or two steps down from them in the hierarchy of responsibility. All these people have the great formative freedom—the freedom to make mistakes—and they learn more from it in a short while than the bureaucrat can learn in half a lifetime. A man will develop his mind and his judgment far quicker as the owner of a fish-and-chip shop rather than as the buyer for a civic restaurant, as owner of a three-truck transport business rather than as deputy assistant manager of a Transport Board sub-district. Similarly, trade unions, as Dr. Dalton admits by implication,* retain under free enterprise a greater sphere of independent action than under Socialism. They, like the employers, rub their corners off in negotiation; they learn tolerance of other men's views and a respect for public opinion. Non-bureaucrats learn their own way out of difficulties and hardships, rather than waiting on the government to remove them. By a readiness to take risks they make their own way rather than seeking security and social status in the spiritless government machine.

In short, the retention of large responsibilities among as large a number of the population as possible is vital to the maintenance of national vigour.

I return now to the economic consequences of my second principle. From this principle arises government responsibility for full employment. The government must further decide whether a declining industry, such as agriculture, shall be allowed to decline, whether it should be bolstered up at some cost to the community, or whether it should be specially stimulated, like housing. Where an industry is to be allowed to decline—and economic progress would be impossible without declines in some industries—the government is responsible for promoting the voluntary mobility of

*See page 40.

labour by such methods as state training schemes, removal allowances, bonuses for mobile workers and planning of housing in development areas.

The sphere of the government in planning them is not to undertake the impossible task of planning all industry but in general to solve problems that do or will involve more than one industry, or to achieve a desirable result which owing to circumstances cannot be achieved by voluntary action. The government must have regard to the location of industry and be prepared to influence it by incentives. It must foresee the trend of structural adjustment and facilitate the movement of capital and labour to potentially expanding industries. As an example of compulsory regulation it might prohibit the employment of much juvenile labour where the industry concerned had no likelihood of being able to absorb such labour when grown adult.

Third Principle

My third principle is Liberty but not Licence*—Choke Licence but beware of strangling Liberty in the process. A citizen is entitled to the maximum freedom of speech and action as will not curtail the freedom of his fellow. Further freedom may only be taken away from him for the sake of a desirable result which can be achieved in no other way. Freedom of speech, freedom from arbitrary imprisonment and freedom from confiscation are the obvious freedoms. The freedoms that are in danger at this particular moment are the freedom of the individual to choose his work, his home, his leisure and how he shall spend his money. It is proposed by quite respectable Socialists like Mr. Jay that the poorest section of the population shall be provided free by the Government with houses, heating, sanitation, health services, education, food and clothes—all on a means test. When higher productivity permits increased consumption, there is to be no increase in wages but instead an increase in

*To be right it is not necessary always to be original.

social services. Socialists assert that Capitalism makes a labouring man into a commodity. To provide all his basic wants without choice to him would make him into a beast. The good things of life must be made available to the people not in kind but by an expansion of their incomes.

A reasonable expectation of a secure position in life is inseparable from true liberty. To get security men may be deceived into bartering a part of their liberty. Security is assured not only by a steady job but as much by property. Property is a word much trampled over. By property I mean not something which allows a man to live without working, but a reserve against misfortune and a store of achievement—just as a ratchet in a clock prevents a wound-up spring from slipping back except by slow time. What assurance can a man get from life if he cannot feel that hard work will not steadily build for his family a bulwark against his sudden dismissal, illness or death, and for himself a pride that he has made something out of his years? Soulless Socialist theoreticians preach that, once the capitalists have been eliminated, all men will work only for the good of the state. If any man believes such nonsense his wife will quickly disabuse him of it. Governments, it is true, are ready with benefits and old age pensions for the losers but the proud man desires his own security. He desires to own his house, his garden, furniture, books and a balance at the bank. A man by owning property builds a status for himself in the community. There is no pride in property unless it is acquired by choice and effort rather than by dole.

So much for the direct importance of private property to the average man. But democracy itself has a stake in the institution. In the days of monarchical government the King, who was the government, was only prevented from becoming a dictator by the existence of a property-owning nobility. The nobility owned a large part of the land and the allegiance of its inhabitants. Thus the nobility divided power with the King and each set a check upon encroachment by the other. Similarly nowadays the holding of property in

private hands—in land and in industry—sets a check upon an overbearing government. It is true that a government with a docile majority can vote itself sweeping powers over private property but in exercising those powers it must always keep one ear open to the volume of protest evoked. Once, however, the government itself owns the property that formerly was private it can proceed much more brazenly. The only protestors then are those who protest for the sake of principle rather than of interest, and the former are the minority. The Socialists, having nationalised land values, prove my point by still aiming at the nationalisation of the land. They not only wish to see that there is no private exploitation; they wish themselves to be in a position to exploit. It is not necessary for democracy that there should be large single owners of land or industry. What is necessary is that the ownership should be kept out of the hands of the bureaucrats. A bureaucrat is not, like the private owner, subject to the law. He himself makes it. Departmental orders, for instance, take the place of rent tribunals. Give a bureaucrat, as nominee of the government, ownership of land, houses and industry and there is no limit to his power. "All power corrupts, absolute power. . . ."

Liberty, however, is lessened by Licence. Licence is present when a small group of people is able to extort an excessive price for a commodity because the commodity cannot be got elsewhere. Monopoly, if so exercised, is licence. There are two classes of monopoly—natural and artificial monopoly. Natural monopoly is present when there is no question of consumer's choice and therefore no competition. There cannot for instance be two sewers flowing down the same street with consumer's choice to select the least evil-smelling. Sewage must therefore be controlled by the state or the municipality. Electricity at first sight comes into the same category. But here there is a consumer's choice though in a different commodity. If the electricity company provides an erratic or expensive service the consumer can take gas instead. Each, because there can only be one provider in a

given district, must be subject to government controls. But in order that competition could have its effect on both, at least one of them should not be owned by the government.

Artificial monopoly is caused by price or quota agreements or the reduction of firms in an industry to one. It must either be eliminated or controlled. From my earlier discussion of monopoly it should be clear that where "unscrambling" is possible elimination is preferable to control. Legislation must be passed to reverse judicial decisions favouring restrictionism and enforced with penalties. In particular, it must be established that the reasonableness of a "restraint of trade" is a matter of fact rather than a matter of law—for the latter is the present position; that the Courts are empowered to judge monopoly by its probable economic results rather than by legal precedent. The principle must be embodied in legislation that an agreement which stultifies competition is contrary to the public interest.

Here, then, are the criteria by which the desirability of nationalisation or control should be judged.

Fourth Principle

My fourth principle is a Level Start but an Open Race. While the government must aim at the maximum opportunity for all, it must not achieve it by stifling the incentive to outstanding work. On the contrary, the more equal the opportunity the more justification there is for inequality of reward according to merit. There must be high rewards for high service. This applies as much to the skilled artisan as to the successful business executive, and runs counter to the present Trade Union tendency to reduce the earnings gap between the skilled and the unskilled.

Since the desire to provide for a family is a main ingredient in incentive, it must be possible to bequeath property—just as a man now can in Russia.* In this equalitarian age let

*There is no limit to the amount of wealth which may be owned by Russian citizens, nor, since 1942, are there any Death Duties.

us recognise too that there is advantage for the state in some people being born without the necessity to take a job at an early age. It would be desirable that every boy should have the opportunity of reading without the prospect of an imminent examination, to study the arts, to learn foreign business methods or to master foreign languages, but at the moment it is clearly impossible. Because all cannot enjoy such opportunities, must then all be deprived of them? The high proportion of our leaders in all spheres who have come from the upper and upper-middle classes answers the question. Even the steady increase of ex-public schoolboys on the Socialist Front Bench tells the same tale.

On the other hand, wealth, while it must be allowed to be passed on, must not be passed on without some surrender. New generations must, for the most part, depend on their own efforts. It is right that death duties should be high.

Arising from this principle is the government's responsibility to ensure a good education for all and a university education for the talented, ending with a money grant. At the same time, in accordance with the principle of freedom to spend one's money as one wishes, there is no objection to a man educating his children as he thinks fit. Comprehensive social services are a necessary accompaniment to equality of opportunity but they are no substitute for the higher rewards due to superior work.*

Fifth Principle

My fifth and last principle is the Fallibility of the government. When, once every five years, a government is elected, it may have presented its programme to the public in some twenty points. But under the two-party system the voters have only the option of saying Yea or Nay. In spite of each

*It is worth noting that no party in Britain need feel any shame at the scope of our social services. Already, before the war, according to Lord Beveridge, they stood comparison with those of any other country. Since then, with all-party approval, they have been considerably extended.

party's twenty points the election will usually narrow down to one or two general issues. By returning one party to power the majority of the public has not explicitly approved all the twenty points of that party. It has instead preferred one of two general attitudes. Members of parliament are therefore not delegates bound to implement any means they have supported from their platforms as likely to achieve the general end of peace, prosperity and freedom. They must, even after election, still be guided by evidence and argument. The doctrine of the mandate, which prompts governments to curtail parliamentary debate, often even without discussion of important clauses of legislation, is therefore a sham. Moreover there is a tendency for a government to extend its "mandate" even beyond its original detailed programme. It tends to use its large majority to steam roller all opposition and to claim that its every afterthought is the people's wish by representing itself in all matters as the delegate of the people. In any case the belief that democracy means merely the rule of the majority is a grave fallacy. Tyrannies can be effected by majorities as well as by minorities. Even if a government truly represents the majority it must be scrupulously fair to the minority. Mr. Shinwell's "Tinker's Cuss" philosophy is the negation of democracy. It is vital to freedom, therefore, that the government itself, in recognition of its fallibility, should strengthen the checks upon its own arbitrariness. These checks are two—the second chamber and the Courts. In the last thirty years the government of the day, in the name of efficiency or in no name at all, has tended more and more to side-step the Rule of Law. The Rule of Law means that no official shall be empowered to prejudice a man's liberty or property without that man's right of appeal to the Courts. In wartime the practice greatly increased, and in peacetime has not decreased, firstly of enacting bills leaving important details of legislation to be settled by administrative regulation, and secondly of framing those regulations in such a way as to prevent an appeal beyond an official, or an official acting

in the name of a Minister. It has become customary for Ministers to argue that officials are unlikely to use their powers unreasonably. But it is no defence of a despotism that the despot may be benevolent. "There is no worse heresy than that the office sanctions the holder of it."* There is no gainsaying that Parliament is abdicating many of its responsibilities and delivering the citizen into the hands of the bureaucrat become, all in his own person, prosecutor, judge, jury and beneficiary.

Conclusion

These five principles are the basis of Conservatism. From them can be derived a policy to meet the circumstances of the moment. For it is necessary to be clear on principles before a policy can be framed. Far too many Conservatives express their faith in examples rather than precept and unite round a short-term policy rather than round principles. Thus Conservatives sometimes appear empiricists.

To be sure it is better to be an empiricist than a doctrinaire. Once the immensity of the task of government is recognised, the vast complexity of an educated community of 45 million souls apprehended, there is some excuse for hesitancy and good ground for humility. It is so easy to pick out what is wrong but so important not to overlook what is already right. The consequences of political actions spread often far beyond the objects for which they were undertaken. Consider the reluctance of the present Government to stop inflation. That reluctance is due partly to a fear of bringing home to the people that we are temporarily poorer and partly to an attempt to use too great a proportion of the country's resources for their own darling purposes. But it has had other consequences which go deeper than the economic symptoms of inflation. Inflation has encouraged idleness, indiscipline, gambling, disrespect for the law and a general debasement of moral values. It has done great and

*Lord Acton.

lasting harm. So too can any measures based on a superficial analysis formalised into a rigid prescription. It is easy to sympathise with the originators of Socialism who, in a harsher world, were essentially kindly. They were able to pick out around them glaring inequalities and woeful insecurity and they thought that, by overturning the institutions in which such impurities could flourish, evil could for ever be swept away. Their reaction to the society of their day was a moral reaction. In the words of Dr. Joad,* himself a Socialist, they believed that "members of an equalitarian society, freed from social snobbery and the false prestige of wealth, would enjoy better and fuller lives than were possible to the stunted, the envious and the frustrated half-men upon whose labour Capitalism battered." Once remove Capitalism, a new moral order would automatically be established, expressing itself in discipline voluntarily imposed and accepted, in a new dignity of labour, and in an international brotherhood of manual workers leading through pacifism to perpetual peace. The basis of Capitalism was property. In the abolition of property therefore lay the key to a new world from which, hey presto, envy, frustration and self-seeking would be banished. The curse of Socialism, however, then as now, is the refusal to think things through and the habit of connecting propositions not with logic but with emotion. Eyes wet with tears do not see clearly. Those early Socialists saw gross inequality but they took it for cause, not effect. It is not inequalities which promote evil but the spirit which makes them possible. The abolition of property therefore does not abolish injustice; it establishes new and greater injustice since it destroys the balance of power which diffusion of property ensures. Vest all property in the state and every man becomes a bondman of the government. The majority, now subject to no checks owing to the removal of independence from the minority, becomes a dumb and more potent instrument for injustice than the most rapacious

individuals.' The illusion of "all service for the community" is translated into the reality of "all power for a party clique." The early Socialists thus did not stay to observe the good features of those institutions they condemned but hurried to replace them with others whose evil propensities they had no care to probe. At the same time they popularised a base philosophy which seeks to relate every human action to the pocket. Their motive was moral but their message is purely material. Their Utopia is a Mohammedan heaven to which admission is by trade union ticket and it is to be achieved by act of parliament.

But the community is not some sprawling edifice of machinery, a turn on whose screws produces cognate and limited results and which can be hammered and welded and driven. It is instead a delicate and evolving organism. Thus there can be no blueprints for eternal happiness. A politician who presents one is a fool or a fraud. Blemishes will always occur in any living organism, and, unlike the old ship's doctor, the politician should not advance upon his patient with a knife in one hand and a textbook in the other. His task is a continual fight to keep the blemishes to the minimum without jeopardising the health of the whole body. To fit himself for it he requires neither a preconceived diagnosis nor a happy conviction that the patient will cure himself, but soundly based principles.

The five principles which I have set out show that Conservatism offers neither "tinkering" nor *laissez-faire* in place of a Socialist super-state. While making the government responsible for creating conditions favourable to maximum economic and cultural development, and the nearest approach to material equality compatible with progress for all, they recognise that the state is no more than the mass of its individuals and effect a necessary compromise between liberty and authority; it is this balance which Conservatism seeks to conserve. They are starkly contrasted to the element of Jacobinism in Socialism, of which Lord Hugh Cecil wrote, forty years ago, words as

true now as then—"the Jacobin accent of reckless disregard of private rights; of merciless hatred towards those who, perhaps through no fault of their own, have become associated with some real or fancied abuse; of that disposition, not gradually to develop one state of society out of another, but to make a clean sweep of institutions in the interests of a half-thought-out reform."

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